Annual Report 2014

Delivering Results

Enabling growth and creating value within our communities.

DEVELOPMENT SECURITIES PLC

Development Securities PLC is a property development and investment company. Our principal objective is to create value and growth through real estate development and regeneration in sectors and locations in the UK where demand is in evidence, generating maximum value for shareholders.

Contents

Financial highlights

Delivering results

£320.3m
Net assets

Net assets increased by £13.6 million after dividends of £5.9 million were paid during the year.

48.0%
Gearing

Gearing, excluding our share of joint ventures, has increased marginally during the year. The Group continues to maintain a conservative level of debt.

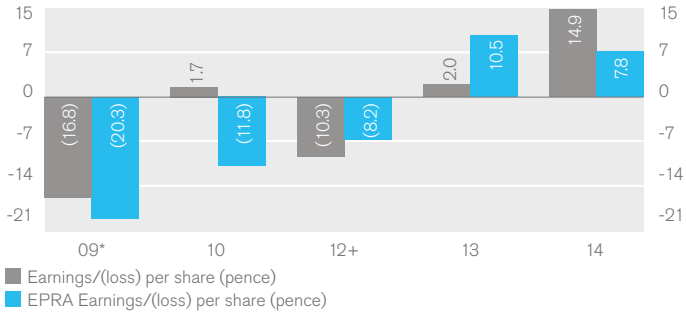
£27.0m
Development and trading gains

The Group has again recorded significant development and trading gains across its direct and indirect portfolio during the year, creating value through regeneration.

5.6p
Dividend per share

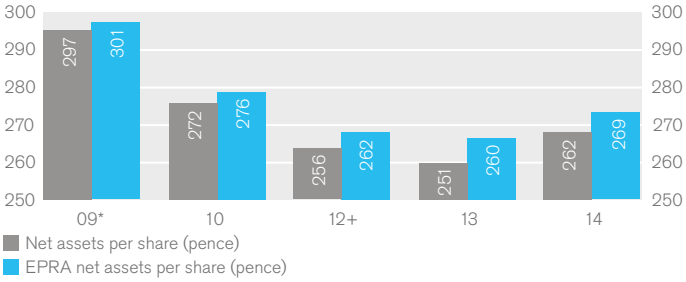
The dividend rate of 5.6 pence per share for the year ended 28th February 2014 represents an increase of 16.7 per cent on 28th February 2013.

Earnings/(loss) and EPRA earnings/(loss) per share



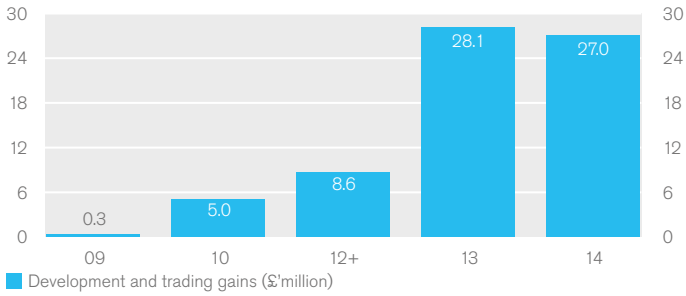
*Restated following the Placing and Rights Issue
+14-month period

Net assets and EPRA net assets per share



*Restated following the Placing and Rights Issue

Development and trading gains



+14-month period

Year at a glance

Good progress made across our portfolio to realise value and deliver strong returns

c.£260m*
of asset disposals realised

16*
planning successes across our portfolio

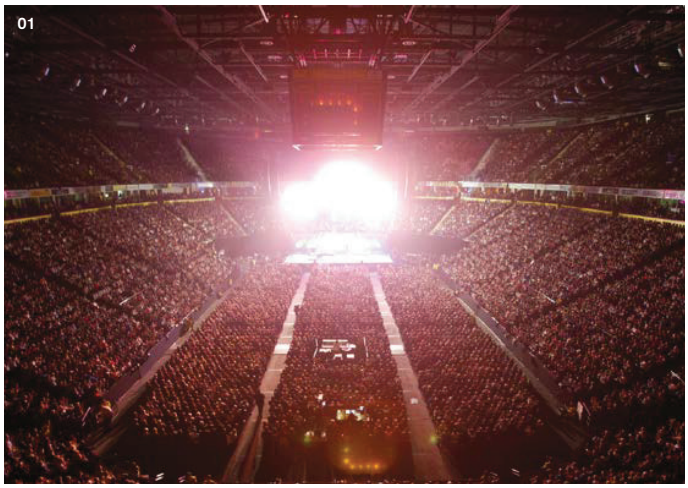
£189m*
of funding secured on existing schemes

c.£70m*
of new assets acquired

Six
sites under construction

Pictured developments:
01—Phones 4u Arena, Manchester
02—Tubs Hill House, Sevenoaks
03—Cross Quarter, Abbey Wood
04—Hale Barns, Manchester
05—Shepherd's Bush Market, London
06—10 Hammersmith Grove, London
07—Harwell Oxford

* Including joint ventures and all activity to date since 1st March 2013.


01


02


03

Q1 FY2014
March – May 2013

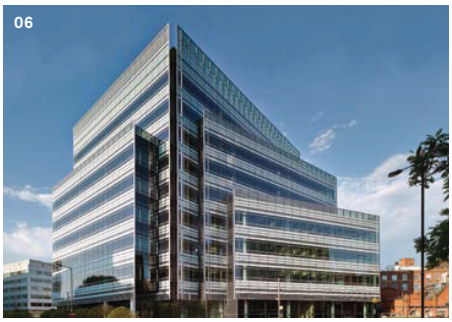
- Broughton residential land sold for £11.4 million
- Planning consents secured for mixed-use developments at:
  — Atlantic Park, Devon
  — Cross Quarter, Abbey Wood
  — 399 Edgware Road, North London

Q2 FY2014
June – August 2013

- Mixed-use development opportunity acquired in Romford for £8.3 million
- The Gatefold building at The Old Vinyl Factory sold to Willmott Dixon
- 10 Hammersmith Grove achieves practical completion


04


05


06


07

Q3 FY2014

September – November 2013

- Phones 4u Arena in Manchester, held in joint venture with Patron Capital, sold for £82.1 million
- 64,800 sq. ft. office building acquired in Sevenoaks for £5.5 million
- 0.3-acre site acquired in Dublin for €2.4 million with planning consent for mixed-use development
- Option agreement secured at Algarve House, a derelict office building adjacent to Southwark underground station, for future redevelopment

Q4 FY2014

December – February 2014

- Portfolio of five office buildings in the King's Cross area of London acquired for £17.5 million
- UKTV signs as first tenant at 10 Hammersmith Grove, taking two floors of the building
- Vacant hotel building acquired in Brighton for £4.5 million and 100-year lease signed with the YHA
- £38.1 million of funding secured for development of first phase of Cross Quarter, Abbey Wood

Q1 FY2015

March – April 2014

- £14.8 million of funding secured for the development of The Square, Hale Barns, a mixed-use, retail-led scheme near Manchester
- £44.1 million of funding secured for first phase of redevelopment of Shepherd's Bush Market
- 12 Hammersmith Grove, a 167,000 sq. ft. prime office building, forward-funded by SWIP Property Trust for £92.0 million and construction commences
- Appointed as private sector partner for the development of major, 700-acre science Campus, Harwell Oxford

Chairman's Statement

On track to achieve our strategic objectives

I am pleased to report a strong set of results for your Company, with a profit before tax of £19.5 million for the year ended 28th February 2014, a significant improvement from the profit before tax of £0.8 million for the previous financial year.

—

David Jenkins, Chairman

Performance

After the payment of £5.9 million by way of dividends, shareholders' funds increased by £13.6 million to £320.3 million from £306.7 million as at 28th February 2013. Net assets per share ended the year at 262 pence per share compared to 251 pence per share at 28th February 2013.

Our level of net debt, excluding our share of debt within joint ventures, remained low at 48.0 per cent compared with 47.9 per cent at 28th February 2013. Given the strength and stability of our Balance Sheet and our prudent business model, the Board has recommended the payment of a final dividend for the year of 3.2 pence per share, payable on 22nd August 2014 to shareholders on the register on 25th July 2014. This payment will bring the total dividend for the year to 5.6 pence per share, an increase of 16.7 per cent on the previous year.

The year was characterised by a high level of activity across our business as we continued to progress our strategy of creating value through regeneration. Within our development and trading portfolio, we generated further strong gains, with profits of £27.0 million realised in the year ended 28th February 2014 (28th February 2013: £28.1 million). It was also pleasing to note that our investment portfolio including our share of joint ventures increased in value by £4.8 million as compared to the fall of £12.8 million in the previous year, and we expect this performance to improve further. In addition, we have made good progress within our major developments programme, with notable activity on the edge of Central London. 12 Hammersmith Grove, Algarve House in Southwark and a further site in Central London on which we have exchanged conditional contracts, all present significant opportunities that build on our track record in delivering high quality commercial-led, mixed-use developments.

Outlook

If the present track of the UK economy proves to be sustainable, we would expect to see an increased level of development activity in the market place as vacancy rates fall further and business confidence grows to ensure that real estate retains its attraction to available UK and global liquidity. The future delivery from our project pipeline is playing into the momentum of a recovery in the UK economy. Against this backdrop, your Company will continue to search out regeneration opportunities in markets where we see both current and emerging demand and where we have development expertise and a position of strength. In addition, we will continue to search out further opportunities from within the financial sector, as banks further reduce their exposure to real estate.

Property development and investment is a complex process that requires high levels of professionalism and expertise. My colleagues, the management team and staff at Development Securities have continued to work hard and I would like to thank them for their efforts, especially as our level of activity intensifies. As ever, we will continue to manage our activities with the appropriate level of caution and risk management. We are well-positioned to capitalise on further opportunities as the cycle continues to turn in our favour.

David Jenkins
Chairman
30th April 2014

Who we are

—

A stable management team with a strong track record

From left: Marcus Shepherd, Julian Barwick, Michael Marx, Matthew Weiner.

Chief Executive's Statement

Creating value through real estate regeneration

Our market

A year can be a long time in the fortunes of the UK economy. Twelve months ago, the outlook was uncertain as the economy struggled to generate any meaningful growth. Then, catching most people by surprise, the UK economy began to show signs of life in the second half of 2013, building investor and occupier confidence and reinforcing the upwards shift in market dynamics. This firmer growth trend, allied with a restricted supply of new development product, creates a positive outlook for the successful delivery of our existing pipeline of projects, and improves our prospects for new opportunities to be secured. It still remains to be seen how firmly and rapidly the regional investment and occupational markets continue to recover.

Our focus

We have now established a pipeline of some 40 development projects where our strategy is to create value through regeneration. The diversity and breadth of our portfolio assists us in restricting our exposure in any one project to levels proportionate to our Balance Sheet and also provides good visibility on a steady flow of future gains. Our work is presently concentrated in London and the South East, with an emphasis on residential and foodstore-led mixed-use projects where planning change of use is the key driver to value growth.

For the past few years, office development activity outside Central London has been limited. However, as upward rental pressure obliges some occupiers to seek more cost effective solutions to their requirements, office-led development activity on the edges of Central London is becoming increasingly relevant to us.

Progress in the year

The main drivers for the growth of £13.6 million in shareholders' funds were the excellent performance from our development and trading portfolio which generated gains of £27.0 million during the year (28th February 2013: £28.1 million), as well as a £4.8 million increase in the value of our investment portfolio including our share of joint venture assets. We anticipate that this performance will continue and indeed strengthen over the coming years.

Legacy assets

Like most other real estate businesses, we had some legacy assets that were caught off-balance in the downturn of 2008. Our strategy to resolve them was to seek new or improved planning consents suitable to a more subdued economic environment and changing nature of demand. During the year, we made further good progress on two of our three significant, non-income earning legacy assets. At Broughton, planning consent was received in July 2013 for 232 residential units on 19 acres of land which was subsequently sold at book value for £11.4 million. At 399 Edgware Road, we obtained a revised planning consent for a foodstore-led mixed-use scheme. We are now under offer with a funding partner to finance the development of the 80,000 sq. ft. food store, pre-let to Morrisons, which will unlock £12.5 million of positive cash flow. The other components of this scheme, with a similar end development value, will also be resolved in the near-term. The third significant legacy asset is at Curzon Street in the centre of Birmingham where our ten-acre site is directly impacted by the proposed HS2 rail project and it will be some considerable time before we will be able to monetise this asset.

Development and trading portfolio

Our current development and trading portfolio has seen a high level of activity and this part of the business continues to perform at or above expectations, with a strong pipeline of further disposals established. In April 2014, we completed the disposal of assets within the Rock portfolio and additionally have now realised all of the underlying assets within the Chrome portfolio. Both of these portfolios were acquired from financial institutions and we continue to seek further such loan portfolio acquisitions.

We were also pleased to secure institutional funding on several of our projects since the year end, allowing us to implement their delivery and monetise our position. We secured £14.8 million of funding to finance the development of The Square in Hale Barns near Manchester, £38.1 million of funding for the development of the Sainsbury's food store at Cross Quarter, Abbey Wood and £44.1 million for the first phase of development at Shepherd's Bush Market. These projects were acquired by us in a state of obsolescence or dereliction and benefitted from subsequent planning permission to facilitate the delivery of these mixed-use regeneration schemes.

Well poised to capitalise on our Balance Sheet strength and development expertise

Michael Marx, Chief Executive

The planning process remains the key enabler to successfully repositioning projects in order to realise value. It is pleasing to note that we have secured 16 planning wins in the period since 1st March 2013.

We also made a number of acquisitions during the year with a continued focus on regeneration projects. Three of these acquisitions were in or close to Greater London: a £5.5 million office building in Sevenoaks; a £17.5 million portfolio of five office buildings in North London; and an £8.3 million town centre mixed-use development opportunity in Romford. The residential element of these mixed-use projects is increasingly significant to us and, where appropriate, we are seeking planning change of use to create more residential development opportunities within our portfolio. In October 2013, we acquired our first project in Dublin, a market which we perceive to offer further opportunity for development and investment. In April 2014, we contributed £8.5 million to the restructuring of Deeley Freed, a Bristol-based property developer with an excellent reputation for high quality projects who required assistance in reshaping its liability portfolio.

Investment portfolio

As anticipated, our regionally-biased property investment portfolio has now begun to show some positive value growth. Yields have started to compress as investor appetite for quality assets outside London has increased. This improved sentiment has resulted in a valuation uplift of £3.1 million in our directly held investment portfolio as at 28th February 2014 (28th February 2013: £16.4 million decline). Including the investment properties held within our various joint ventures, this upward revaluation increases to £4.8 million. We are hopeful that these market conditions will further strengthen through the coming year. It is pleasing to note that vacancy rates have reduced to 6.3 per cent as at 28th February 2014 (28th February 2013: 9.7 per cent). Our investment portfolio generated £15.0 million in rental income which contributes significantly to the stable cash flows of our business.

With increased liquidity and competition within the markets in which we operate, we have commenced our programme of disposals of those assets where our business plan is now complete. In October 2013, we sold The Phones 4u Arena in Manchester for £82.1 million. The value that we added to this arena during our period of ownership with our joint venture partner was considerable, with returns far exceeding our original expectations. Additionally, we sold our Waitrose-anchored scheme in Winchester for £23.3 million in March 2014, £1.3 million in excess of book value as at 28th February 2013. In April 2014, we sold £21.0 million of assets from within our investment portfolio at book value. We intend to recycle the equity released from these disposals back into the investment market in the near-term.

Major developments

In July 2013, we completed 10 Hammersmith Grove, our first large-scale office project of the current cycle, and in February this year completed the first letting of two floors to UKTV. Work has now commenced on the second and final phase of this development, 12 Hammersmith Grove, a 167,000 sq. ft. prime office building. In October 2013, we secured an option to acquire Algarve House, a vacant, derelict office building in Southwark, another strengthening market on the fringe of the Central London core. Here we are progressing the masterplan for a mixed-use regeneration scheme of some 200,000 sq. ft. In April 2014, in joint venture with a financial partner, we exchanged conditional contracts to acquire an income-generating office building for more than £75.0 million in a Central London location.

In August 2013, we received a compensation payment of £7.1 million for releasing our interest in the remaining two phases at PaddingtonCentral, the 1.2 million sq. ft. office-led mixed-use regeneration project in which we had been engaged for some 15 years.

Outside London, in March 2014 in a joint venture with Prorsus, we were appointed as the private sector partner at Harwell Oxford. Here, we will manage and further develop this internationally renowned science Campus on a 700-acre site in partnership with the Science and Technology Facilities Council and the UK Atomic Energy Authority, two Government-backed agencies.

Outlook

We remain positive about the outlook for all aspects of our business. We are well poised to capitalise on our Balance Sheet strength and development expertise, which are traditionally much in demand at this point in the cycle.

Michael Marx
Chief Executive
30th April 2014

Strategy

Our focus is to create value through regeneration across a diversified portfolio and throughout changing property and economic cycles

Our portfolio is purposefully diverse, allowing us to develop and invest across different markets and sectors at different stages of the property cycle. Rather than relying solely on market momentum to drive value, we have applied our development and planning expertise to take functionally obsolete sites from acquisition, through the planning process and to ultimate disposal, capitalising on the value gain and positive change therein.

Underpinning our diverse activity is a consistent approach to risk management and focus that allows us to mitigate the effects of major market fluctuations and remain financially robust even during the most severe market conditions.

The following outlines our five strategic principles and their application during the year:

Business principle	Strategy	Application in the year ended 28th February 2014	More
1 **We operate a low risk financial and funding structure**	The Group seeks to maintain a modest level of gearing at 50–60 per cent.	▪ We maintained a low level of gearing at 48.0 per cent ▪ Our diverse portfolio keeps our exposure to any one project at low levels, mitigating specific risk within an individual project	Page 43
2 **We undertake major developments in partnership with long-term institutional investors**	We do not undertake our major developments on our own Balance Sheet but limit development risk largely through forward-funding, pre-leasing or pre-sales.	▪ Since 1st March 2013 to date, we have secured over £189 million of funding from investment partners including SWIP Property Trust, Pramerica and Canada Life, allowing us to secure the delivery of our projects whilst de-risking our involvement	Page 36
3 **We focus on commercial and mixed-use property**	We have a strong track record of securing planning consents and developing commercial property, predominantly mixed-use regeneration projects, food-anchored retail schemes and prime office developments.	▪ Our core expertise lies in commercial and mixed-use development and from there we have diversified into sectors where demand is evident. This includes selected residential-led schemes, foodstore-anchored retail schemes, student accommodation and hotels ▪ Where appropriate, we have partnered with specialist operators in these sectors in order to augment our own expertise	Page 30
4 **We maintain an investment portfolio to generate a steady income stream**	Our investment portfolio accounts for a significant element of our invested equity. We focus mainly on assets with core defensive income and opportunities to increase value through enhancement or redevelopment. This provides a steady and predictable flow of income which supports our central overheads and mitigates the more uneven profits and cash flow arising from our development activities.	▪ Our investment portfolio produced £15.0 million of rental income during the year, significantly contributing to our cash flow and central overheads ▪ We proactively manage our portfolio to improve income and capital values. Since 1st March 2013 we have achieved sales of £32.7 million in addition to the disposal of a £21.0 million portfolio of assets where we had concluded our individual asset business plans. We acquired £9.5 million and have exchanged on a further £7.4 million of new investment assets ▪ For the assets reported under IPD, our portfolio growth of 3.3 per cent compared against a 3.2 per cent annual growth in the IPD monthly index excluding Central London	Page 38
5 **We invest predominantly in the UK**	Nearly all of our development and investment activity is conducted within the United Kingdom.	▪ During the year we made our first acquisition in Dublin, a market where we see considerable opportunity for further development and investment ▪ The rest of our activity continues to focus solely on the UK, targeting locations of relative economic strength	Page 11

Business model

We apply our investment and development expertise across a diversified portfolio of assets, allowing us to mitigate risk and maximise returns

We apply our strategy across our three portfolios as follows:

Read about our vision for Harwell Oxford, a major UK science Campus on pages 26 to 29

Read about how The Old Vinyl Factory is transforming Hayes on pages 14 to 17

See pages 38 to 41 for further details of our investment portfolio

Development and trading portfolio

Why

To create value through the regeneration of redundant or undervalued real estate, creating a product that can be sold into the prime or near-prime market.

How

- Identify strong buying opportunities in markets where demand is evident
- Maximise value and growth through planning gains, proactive asset management and development
- Target project life cycles of three to four years and IRRs in excess of 20 per cent

Real estate loan portfolios

Why

To realise gains through the acquisition of property loan portfolios from banks/ financial institutions.

How

- Acquire real estate loan portfolios with opportunities for value enhancement e.g. through repositioning of underlying real estate assets
- Dispose of the underlying assets as rapidly as markets will allow to appropriate end users

Major developments portfolio

Why

To deliver prime developments that achieve maximum returns with reduced risk exposure.

How

- Target locations where supply of prime product is limited and occupier demand is strong
- Apply development and planning expertise to take sites from land assembly and acquisition to scheme completion and full occupancy
- Mitigate development risk through institutional forward-funding, pre-sales and pre-lets

Investment portfolio

Why

To grow a stable income stream from higher yielding investment assets with enhancement potential. Our investment portfolio significantly contributes to our central overheads and supports our development activities.

How

- Target assets in sectors and locations where occupier demand is robust
- Drive income growth through proactive asset management and enhancement

Our market

Well positioned to capitalise on emerging market opportunities

Strengthening economy

UK GDP growth re-emerged in the second half of 2013, largely as a result of a rise in house prices and consumer-led spending together with London's further economic growth. Yield compression is now in evidence in markets outside Central London as investors are persuaded up the risk curve by the unattractive yields available in Central London and improving market fundamentals. The opportunities for developers and investors have expanded (see figure 1).

Rental growth/supply and demand

Apart from London, UK property rents overall have yet to make any meaningful rise from the low points reached after the 2008 crash. In London, constrained supply enabled rents to rise even ahead of the economic upturn. Rental growth outside London must await the ripple effect to spread from the capital city and for a sustained UK recovery (see figure 2).

Prime and secondary markets

The gap in pricing of prime and secondary property remains at historically high levels but this yield differential has started to narrow. On one hand, this differential has enabled us to acquire assets cost effectively and capture value uplift by repositioning them towards prime markets. On the other hand, in recent years, it has impacted negatively on our investment portfolio performance. With non-prime yields now falling, we would expect an improved performance within our investment portfolio and further opportunity to acquire secondary real estate where regeneration can add further value (see figure 3).

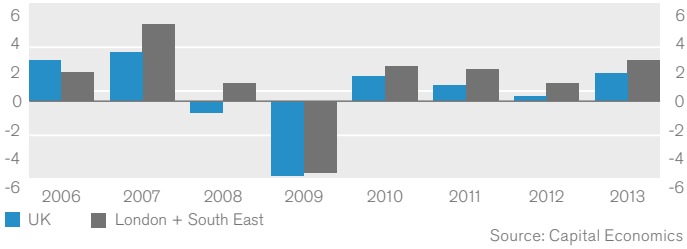
Retail landscape changing

The retail sector is undergoing structural change and the traditional high street retailer base continues to be undermined by reduced consumer disposable income, the rising dominance of major urban shopping centres/supermarkets, and the increasing importance of internet shopping. Consumer footfall in foodstore-anchored shopping centres remains largely protected.

Real estate lending less constricted

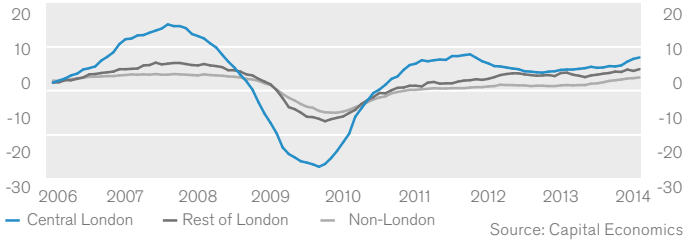
Banks have cut their exposure to real estate from twelve per cent of their commercial loan book to just under nine per cent. Nonetheless, there is some evidence that gross lending volumes are now increasing. Meanwhile, non-traditional lenders have emerged into the market. Additionally, the weight of global liquidity in a near zero interest rate environment has encouraged investors into real estate without the need for associated leverage. It appears that there is additional capacity in the institutional lending market and growing appetite to lend against real estate (see figure 4).

Figure 1: Real GDP Growth, % y/y



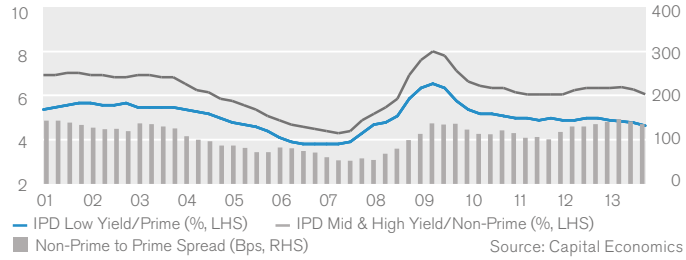
Source: Capital Economics

Figure 2: Commercial office rental values (%)



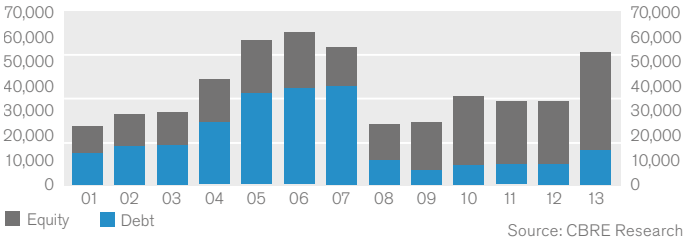
Source: Capital Economics

Figure 3: Initial yield



Source: Capital Economics

Figure 4: Lending to commercial real estate (£ million)



Source: CBRE Research

Where we operate

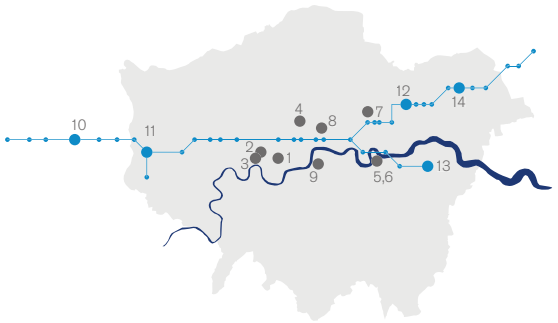
A diversified portfolio of real estate in locations where demand is in evidence

We apply our development and investment skills across a number of locations, identifying real estate opportunities that offer potential for value enhancement. This allows us to shift our focus according to the challenges and opportunities presented by changing property and economic cycles. Our portfolio is diverse, allowing us to spread risk across different locations and sectors in which value can be generated.

A geographic analysis of our portfolio reveals a weighting towards London and the South East, both in our investment portfolio and our development and trading portfolio. Of particular weighting are suburban London locations which will benefit from Crossrail.

Portfolio assets across the UK

London and Crossrail



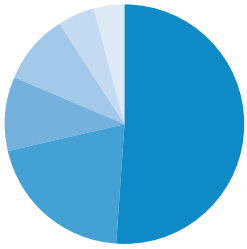
Key London assets

1 Kensington Church Street
2 Shepherd's Bush Market
3 10 and 12 Hammersmith Grove
4 399 Edgware Road
5 Morden Wharf, Greenwich
6 The MVMNT, Greenwich
7 Wick Lane Wharf
8 Portfolio of five North London offices
9 Algarve House, Southwark

Crossrail-enhanced projects

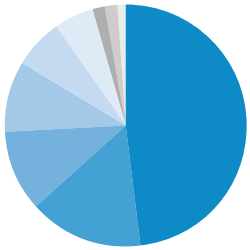
10 Brunel Place, Slough
11 The Old Vinyl Factory, Hayes
12 Valentine's House, Ilford
13 Cross Quarter, Abbey Wood
14 Tollgate House and Market Place, Romford

Investment portfolio– location profile by capital value



South East	51.3%
South West	20.1%
Wales	10.0%
North	9.6%
London	5.0%
Midlands	4.0%

Development & trading portfolio– location profile by equity investment



London	48.3%
South East	15.2%
North	10.8%
South West	9.4%
Wales	6.7%
Midlands	5.2%
Scotland	1.8%
East Anglia	1.6%
Northern Ireland	1.0%

Risks

The Group's business model is defined by the nature and extent of the risks which the Directors consider are material to the Group's strategy, size and capabilities

The Group's risk profile is maintained under continual review by its Risk Committee, which meets quarterly, and also by the Board.

The Group categorises risks according to the likelihood of occurrence and the potential impact on the Group. The Directors consider the following to be the principal risks and uncertainties facing the Group.

These risks have been grouped as either:

- External risks – whose occurrence is beyond the control of the Group; or
- Business risks – which the Directors choose to manage as part of the Group's operations

Further details of the operation of the Group's Risk Committee can be found on pages 63 and 64.

External Risks

Risk	Impact	Mitigation	Risk exposure change year on year
Market Risk The real estate market is closely linked with the health of the local and national economies. Lack of economic growth or recessionary conditions will translate into negative sentiment towards and performance of real estate.	▪ Higher occupier risk in existing investment properties leading to significantly reduced values. ▪ Lack of occupier demand leading to functional obsolescence in properties. ▪ Lack of liquidity available to prospective purchasers of completed projects may delay ability to realise planned disposals or reduce prices, leading to significantly reduced cash inflows.	▪ Risk averse property development strategy whereby projects are pre-funded, pre-let, or pre-sold. Long maturities of debt finance facilities. ▪ Moderate level of gearing. ▪ Regular meeting with economic forecasters to gauge economic trends.	↘ General economic conditions have improved during the year leading to either stabilisation or increase in values across most sectors.
Scarcity of investment and development opportunities The Group's business is predominantly transactional and requires a flow of opportunities for either development/regeneration or to acquire for long term income and capital appreciation. The risk is that the flow of suitably priced opportunities either reduces or stops.	▪ Inability to source new deals leads to decline in trading and development profits in future years. ▪ Higher pricing of acquisition opportunities leads to reduced ability to add value.	▪ Flexible approach to market opportunities, seeking out sectors where value can be generated and seeking funding partners with different return requirements. ▪ Stringent deal underwriting procedures with minimum return hurdles. ▪ Maintaining broad industry contacts for acquisitions rather than being dependent upon a single source of opportunity.	→ Opportunities continue to be sourced for both development and investment which satisfy Group underwriting criteria.

Key
Change from last year
↗ Risk exposure increased
↘ Risk exposure reduced
→ No significant change in risk exposure

External Risks continued

Risk	Impact	Mitigation	Risk exposure change year on year
People Risk The Group's success depends on the ability and experience of its Directors and key staff.	▪ Failure to retain key individuals or the failure to attract and retain new talent can result in the loss of core competences, industry knowledge and networks resulting in a reduction in the number and scale of profitable opportunities.	▪ The Group aims to motivate and reward its team appropriately and competitively, as described in the Remuneration Policy. ▪ The Board keeps the strength and depth of the team under continual review.	→
Bank Funding Risk The pressure on a large number of traditional real estate lending banks to reduce their exposure to real estate reduces the capacity and liquidity within the lending market.	▪ Inability to secure funding for new opportunities. ▪ Inability to refinance existing facilities leading to disposals at the wrong time in business plans and failing to maximise profits. ▪ Unpredictability in cash flows.	▪ The Group maintains relationships with a wide range of both bank and non-bank lenders, reducing overreliance on any one partner. ▪ The Group is constantly seeking to widen its range of funding sources and liaising with new entrants into the real estate lending market.	↘ The lending market continues to see new entrants. Competitive pressures have led to a reduction in margins and an increase in maturities available.
Counterparty Risk Transaction counterparties, be they joint venture partners, purchasers under sale contacts or banks in respect of cash deposits or derivative arrangements may either suffer or fail financially.	▪ Failure of sales transaction counterparties may lead to an inability to produce trading profits. ▪ Failure of financial counterparties may impact on effectiveness of hedging or recoverability of deposits.	▪ Proof of funding required prior to agreeing sales contracts. ▪ The Board regularly assesses the credit worthiness of financial counterparties prior to placing deposits and hedging transactions.	→

Business Risks

Risk	Impact	Mitigation	Risk exposure change year on year
Planning Risk Procuring an appropriate and valuable planning consent is often a key element of the creation of value through property development. Securing planning permission in a changing regulatory environment is a complex and uncertain process, with applications subject to objection from a wide range of potential stakeholders, and hence is prone to delay, modification and rejection.	▪ Failure to secure planning consent can render a project unviable/unprofitable and lead to the write off of considerable costs.	▪ The Group retains a team with extensive experience of achieving planning consents and local knowledge supplemented by advisors and sector specialist partners to maximise the chance of success and reduce the risks and costs of failure. ▪ An alternative exit strategy is always considered in case of planning failure.	→
Construction Risk Real estate construction is subject to the risk of cost overruns, delay and the financial failure of an appointed contractor.	▪ Reduced profitability or potential loss on individual projects. ▪ Construction work ceasing whilst a suitable replacement contractor is found.	▪ The Group deploys its own experienced project managers throughout the life of individual projects to ensure that costs are appropriately budgeted, timetables are adhered to and hence the impact of these risks is minimised. ▪ The Group performs appropriate pre-contract due diligence on the capabilities and financial security of its material contractors.	→ Next year it is expected growing confidence will lead to increases in orders placed, putting upwards pressure on prices.

PLAY

THE OLD VINYL FACTORY, HAYES

Preface

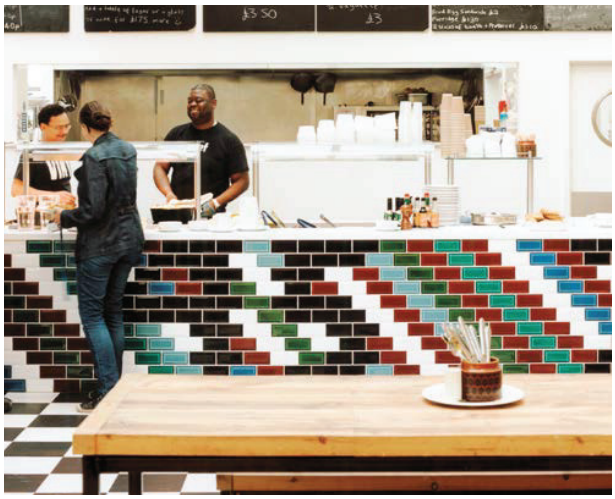
Thirty years after EMI moved out, The Old Vinyl Factory is ready for its encore, thanks to an ambitious £250 million joint venture between Development Securities and Cathedral Group.

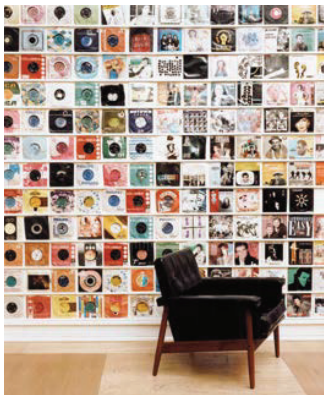
There are many places that could call themselves the home of pop music. Manchester, the nexus for Madchester and Britpop, is one. So is Abbey Road, where the Beatles and Pink Floyd honed their sound.

Hayes trumps them all. This unassuming town in West London grew up around the headquarters of the Gramophone and Typewriter Company – later to be known as EMI. EMI started pressing records here, under the legendary His Master's Voice label, in 1907. They didn't stop for sixty years.

Every Beatles record was pressed here. In its heyday, over 22,000 people worked on the site, making records by Deep Purple, Pink Floyd, The Rolling Stones. Records that would change the world. (When asked to press Sex Pistols' God Save The Queen, many of those workers refused, nearly delaying the record's release.)

Today, the Old Vinyl Factory is largely vacant. The beautiful Art Deco buildings – designed by Wallis, Gilbert and Partners – are slowly decaying. All that remains of the Factory's incredible legacy is the EMI Archive Trust, a little charity that still operates today. ◆





The lyric picked out in huge letters on the wall could be a mantra for the entire scheme: 'We built this city on rock 'n' roll'.

Martyn Evans
Cathedral Group

A TASTE OF THINGS TO COME

Why would a developer be interested in a cluster of derelict factories in a distant corner of West London?

Most weren't. "All the agents told us to run a mile," explains Martyn Evans, Cathedral Group's Creative Director. "So naturally, we were interested."

The site has a few things going for it. Hayes is a stone's throw from Heathrow, which is useful for businesses. And, when Crossrail arrives in 2018, it's likely to be more attractive to commuters. But there are many other towns in the same position. How is the Old Vinyl Factory going to stand out?

The answer can be found in the Shipping Building – the place where EMI used to pack Britain's finest pop tunes before sending them around the world. Today, the building hosts the Vinyl Canteen, which serves the 500 people working on-site, as well as curious visitors.

The Canteen was conceived as a preview of the Factory's future. Inside, it's beautiful: bold Art Deco patterns are picked out in glazed tiles on the counter; the high ceiling is hung with cheery, yolk-yellow awnings. The food is cooked by Greenwich Cooperative Development Agency, a cooperative that promotes urban growing, local food, and sustainability. The Starship lyric picked out in huge letters on the wall could be a mantra for the entire scheme: "We built this city on rock 'n' roll".

"You have to create a compelling story," explains Evans. "You need to convince people it's going to be great." ◆

THE CREATIVE HUB

The Old Vinyl Factory is a mixed use scheme. The public spaces and housing will be built around the so-called 'Central Research Laboratory': a state-of-the-art incubator for British startups in engineering, manufacturing and retail; a place where freewheeling creatives and business heads will be able to cross-pollinate.

"We want to turn innovators into entrepreneurs," says Evans.

This sentiment is echoed by Kit Malthouse, the Mayor's business and enterprise deputy, who describes the Old Vinyl Factory as "planting acorns". The GLA has confirmed its intention to invest £7.7 million in the scheme. The ambition is to revive high-tech manufacturing in West London.

If successful, it would be a fitting tribute to the Factory's history. In the Sixties, EMI did more than just press vinyl at Hayes. The site was also home to the company's research laboratories. It was here that Sir Godfrey Hounsfield developed the CAT scanner – work that would eventually earn him a Nobel Prize, not to mention save countless lives around the world.

After forty years of decline, the Old Vinyl Factory promises to return Hayes to the forefront of British ingenuity. The little town that really was built on rock 'n' roll will soon be rocking again. ◆

A Vibrant Future

Shepherd's Bush Market, London

Preface

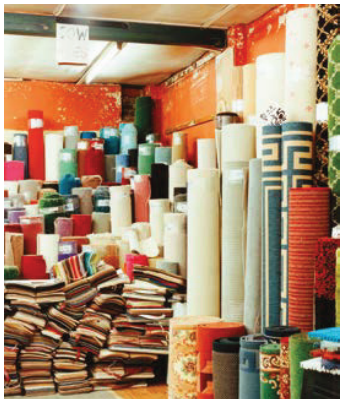
This summer, Shepherd's Bush Market will celebrate its 100th birthday. The market has seen many changes over the years – but its £150 million revitalisation could be the biggest yet.

On the west side of London, only just beyond gleaming Westfield, lies another, very different retail destination.

Shepherd's Bush Market is hard to categorise. It does not sell any one thing. The market has a strong history in fabrics, but you can buy groceries, garments, electrical goods and kitchenware there too.

The traders are as diverse as the goods they are trading. Over the years, Shepherd's Bush has welcomed East End barrow-boys and Jewish fabric merchants, West Indians and Pakistanis. More recently, traders from the Middle East and Eastern Europe have added to the mix.

New faces join every year – but plenty of the old ones remain. Near the middle of the market, for example, E. Mills & Son still sells carpets – just as it did in 1918. The market's identity is its diversity. ◆



Widening appeal

So why does it need to change? Walking through the market on a Tuesday morning, the answer seems clear: it's quiet. No retailer has found the last few years easy, but markets have tended to benefit from our passion for localism. What's different about Shepherd's Bush?

Robin Partington is the architect working on the project. He cites a fundamental disconnect with the local area.

"It's never been part of the community. There's nowhere for people to chat. If I was an old person, I wouldn't want people barging past me all the time."

Shepherd's Bush is a linear market. It stretches for 300 metres between the Uxbridge and Goldhawk Roads. When the market is busy, walking along it is claustrophobic. The new plans will widen the central thoroughfare, and create breathing spaces along the way.

Some of the traders are worried this will change the feel of the market. Others think that that's precisely the point.

What you need to do is listen to everyone's point of view

Guy Rose
Market Manager

"Markets are full of individuals," explains Guy Rose, who manages Shepherd's Bush on behalf of Wellington Markets, the specialist operator brought on board by Development Securities and Orion. "What you need to do is listen to everyone's point of view."

Wellington Markets' portfolio includes Old Spitalfields Market – a big success story in market regeneration. When Spitalfields was vacated in 1991, the future looked bleak. But new investment has made the market vibrant again.

The ambition is to do the same for Shepherd's Bush. The market's historical strength in fabrics will be built upon, new public spaces and its diverse offer will encourage visitors to spend time there, rather than just pass through, and 200 new homes will ensure the market's life extends beyond trading hours. ◆

Staying in character

Any urban regeneration project is challenging. At Shepherd's Bush, there is a dizzying array of people involved: the Mayor, the GLA, the borough, TfL, the traders, local residents, customers. One thing they all agree on is that the market has "character", and that this character must be preserved.

What do they mean? Mailk and Raja own a grocery shop in one of the railway arches on the west side of the market. How long have they been here? "Not long," says Malik. "32 years." He grins.

Malik and Raja are generous with their time. They make jokes. They pose for photographs. It's an experience you couldn't imagine having on many British high streets.

This is the character the redevelopment hopes to crystallise. "Traders don't want to lose the chemistry," says Robin. "That's natural. What we're doing is trying to capture to spirit of the market, and help it better engage with the public. We want to give it a future." ◆

How long have they been here? Not long, says Malik. 32 years. He grins

Malik
Grocery Store Owner

OUT OF THE WOODS

CROSS QUARTER, ABBEY WOOD, LONDON

Preface

Much of Abbey Wood was built in the Fifties, to accommodate people displaced from London's East End. Our £85 million regeneration will bring new jobs, housing and community facilities – just in time for the arrival of Crossrail

How do you regenerate a community? There's no one answer to that question, of course. Every community is different. Each has its own needs and aspirations. But the recipe would usually involve one or more of the following: new jobs, new housing, new community facilities and new transport infrastructure.

Abbey Wood, in South East London, grew up in the Fifties. The Second World War devastated London's East End, creating an urgent need for housing in and around London. London County Council's solution was to build a series of large, out-of-town developments in places like Abbey Wood.

At a stroke, the Abbey Estate created 3,000 new homes. The area suddenly had a lot more residents, and the community facilities were found wanting. There were few pubs and shops. Many of the residents, used to busy lives in East London, felt stranded among Greenwich's misty marshes. That lassitude has continued, in some degree, to this day.

Now, Development Securities and Berkshire Investment Capital are planning a new mixed scheme for the town. Cross Quarter will create up to 220 homes in the heart of Abbey Wood – as well as new community facilities that will benefit the whole town. ◆

> **Regeneration isn't just about the development itself. It's about forging a stronger community.**

Laurence Martin
Development Securities PLC

All Aboard

In 2018, Crossrail will connect Abbey Wood directly to central London. Up to 12 trains will depart for the city centre every hour. You'll be able to get to Canary Wharf in eleven minutes, the West End in just over 20, and Heathrow in under an hour.

The likely consequences are obvious. Abbey Wood, like every town on the Crossrail route, will become newly attractive to London's ever-expanding workforce. Affluent commuters will pour into the area. Terry Morgan, the Chairman of Crossrail, cites Abbey Wood as one of the communities that will benefit most from the new network.

New transport infrastructure may not be sexy, but it's hard to overstate the effect it can have. In the first six months of 2013, 48% of planning applications made in London cited Crossrail as a key investment rationale. Crossrail's tunnels are deep, but their influence is clear at street level: new buildings spring up along the route like buttercups. ◆

Investing in the Community

Even so, fast trains on their own do nothing. In the Fifties, thousands flocked to Abbey Wood despite its remoteness because they lacked other options. Now they have plenty.

So what will make Cross Quarter distinctive? At the centre of the new development will be an 81,000 sq. ft. Sainsbury's superstore with an attractive steel and glass façade. The outline plans also include consent for 220 new flats, a 100-room hotel, commercial space, a nursery and a new public square.

In other words, this is a mixed-use scheme. The emphasis is on commercial, retail and public space as well as new homes. Laurence Martin, who leads the project at Development Securities, makes a point of the fact that Cross Quarter isn't just about building shiny new homes for commuters.

"It will be a great place to live. But it will also be a great place to shop, to work, to stay – or just to pass through. "Regeneration isn't just about the development itself. It's about forging a stronger community. That's what we're trying to do in Abbey Wood."

It's tempting to think of the regeneration of towns like Abbey Wood as a simple product of new investment. But if the Fifties and Sixties taught us anything, it's that poorly planned developments, however modern, often fail to live up to their potential. To suceed, they must be sensitive to the needs and aspirations of both current and future residents and visitors.

This is the ambition behind Cross Quarter: not just to create a great scheme, but to create a greater Abbey Wood. ◆

> "The ambition is not just to create a great scheme, but to create a greater Abbey Wood.
>
> **Laurence Martin**
> Development Securities PLC

Map Data: Google, Bluesky

Preface

Harwell Oxford has long been at the forefront of British science. Now, a multimillion pound investment by Development Securities and Harwell Oxford Partners is turning it into Europe's Stanford.

LEADING LIGHT

HARWELL OXFORD

The quiet countryside of south Oxfordshire might not be where you'd go looking for the future. But here, spread across 700 rolling acres lies one of Europe's leading centres of discovery: the Harwell Science and Innovation Campus.

The Campus started life as an RAF base in 1937. It was from here that many of the Airspeed Horsa gliders involved in the D-Day landings flew. In fact, the first D-Day troops to land in Normandy came from Harwell.

After the War, the site was inherited by the UK Atomic Energy Research Establishment, tasked with developing nuclear fission for both military and domestic use. A decade later, the AERE was joined by the Rutherford Appleton Laboratory, a national centre for space science and particle physics research.

These two institutions established Harwell Oxford as one of the world's leading centres for 'Big Science'. But, as the Cold War wound down, the AERE moved out, and research budgets were cut. For a period the site languished before its relatively recent and now accelerating reinvigoration. ◆

BIGGER IS BETTER

The challenge with 'Big Science' is just how big it can be. Nuclear reactors and particle accelerators don't come cheap. Fusion has the potential to solve all our energy needs, but the billions governments have invested into it have yet to solve all of the scientific challenges.

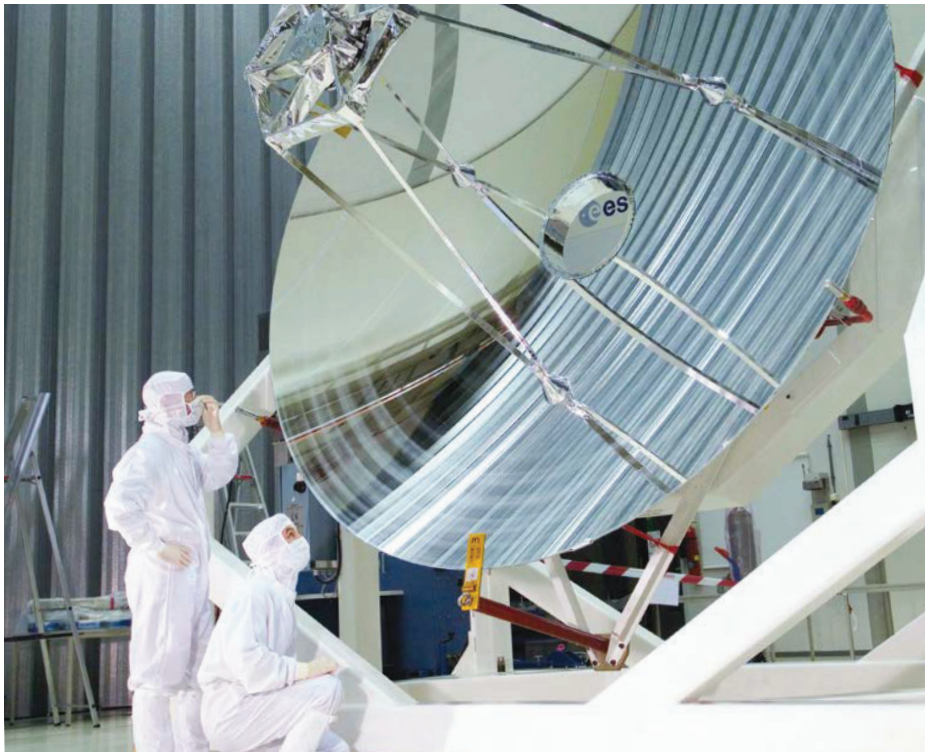
In 2006, Harwell Oxford was rebooted as the Harwell Science and Innovation Campus, with millions in new investment – including the £350 million Diamond Light Source, one of the world's biggest synchrotrons. The idea was that new facilities would attract new, dynamic businesses in engineering, manufacturing and technology, and turn Harwell Oxford into a global research hub.

So far, that bet is paying off. High-tech organisations based in Harwell Oxford range from the European Space Agency to Element Six, a De Beers subsidiary that manufactures superhard materials. In total, there are now 170 organisations on-site, employing 5,000 people.

But with just 30 per cent of the 700-acre site in use, Harwell Oxford has room to grow. That's why Development Securities and Harwell Oxford Partners have purchased a 50 per cent stake in the Campus, joining existing public sector stakeholders the UK Atomic Energy Authority (the successor to AERE) and the Science and Technology Facilities Council.

The new joint venture will expand the commercial R&D space on-site, and introduce housing and other amenities. The ambition is to turn Harwell Oxford into the European equivalent to Mission Bay or Stanford: a thriving research community for both the public and private sectors. ◆

> **"Harwell Oxford boasts £1 billion of science infrastructure, and has one of the world's greatest universities on its doorstep. There's just nothing like it**
>
> **Julian Barwick**
> Development Securities PLC



WHERE STARS ARE BORN

A synchrotron is a particle accelerator, which in the case of Diamond Light Source accelerates electron particles, to near light speed, thereby generating light ten billion times brighter than the sun. This light is then used to examine the structure of materials. Harwell Oxford's Diamond Light Source is one of the best in the world and its sister facility, Isis, also on site conducts similar analysis using a different source.

The range of applications is dizzying. Diamond enables Rolls-Royce to test their jet engine materials and Unilever to improve their haircare products. Cardiff University's classicists use it to read fragile ancient manuscripts, and molecular biologists from Imperial College are understanding how HIV infects human cells with the help of its probing electron beams.

Diamond and Isis are just two of Harwell Oxford's major facilities. The Campus is also home to the world's most powerful laser, Vulcan, and a satellite array that will soon receive signals from the Copernicus satellites, giving detailed, real-time data on earth from above – invaluable to a new breed of 'Big Data' companies. That's not to mention tens of smaller powerful electron microscopes, lasers, and other high-tech testing centres. Each has hundreds of commercial and intellectual applications.

"Harwell Oxford is a classic example of how organisations cluster in order to succeed," says Julian Barwick, Development Securities. "The bigger the cluster the stronger the pull. It's just as well we have 500 acres to build out."

Thanks to the joint venture's new masterplan, Harwell Oxford is set to become Europe's leading scientific campus – a place where diseases are cured, rockets are built, and stars are found. ◆

Development and trading portfolio

This has been a year of intense activity across all aspects of our development and trading portfolio

Our markets

We have continued to progress the business plans for those assets acquired by us over the past three to four years, whilst also growing our pipeline of projects. During the year, we generated gains of £27.0 million from further asset realisations within our portfolio and with a diversified pipeline of projects now established, we expect to maintain this level of activity over the coming years. We continue to focus on structural over cyclical growth, delivering performance by the implementation of specific asset activity.

Our development and trading activity falls broadly into two categories. First, regeneration projects whereby we are able to acquire assets or land in a state of obsolescence or distress and, through redevelopment, create institutional quality assets for which demand is strong. With the yield gap between secondary and prime markets still at historically high levels, albeit starting to narrow, we see continued opportunity to generate value through this process. Our second area of focus is the acquisition of assets or portfolios from financial institutions or banks. We have now completed more than ten such transactions and we expect further activity as banks continue to seek to reduce their exposure to real estate. In both of these areas of activity, it is our ability to apply our development and asset management expertise that drives significant value, with planning change being a key catalyst for positive growth.

The last twelve months have seen a vast improvement in the prospects for the UK economy, with a positive impact on a number of the markets in which we operate. Investor appetite for residential land and developments has continued to increase as demand continues to outstrip supply. London dominates in this positive value growth but the ripple effect is starting to spread beyond central areas. We have a good pipeline of residential land and development projects and, where appropriate, we are targeting further residential-led real estate opportunities in order to increase our presence within this market.

A number of retail sub-sectors saw a decline during the year, mainly in peripheral UK locations. Outside London, retail remains a patchy sector that is trailing the recovery. The challenges that face the sector increasingly appear to be structural and less responsive to cyclical improvements in the wider economy. Within the foodstore sector, the 'race for space' amongst the biggest UK supermarket brands has halted as consumer shopping habits have continued to evolve and the big discount brands have increased their market share. All supermarkets are still looking to expand their stores in aggregate, however, the bias is now towards convenience retailing rather than large-format superstores. We are adjusting our focus accordingly and seeking further opportunities in the convenience retail sector.

During the year, we acquired our first property in Dublin, a market where transactional activity is increasing and in which we see further opportunities for investment and development.

Left: Valentine's House, Ilford.
Right: The MVMNT, Greenwich.

Acquisitions

We made five acquisitions during the year within our development and trading portfolio, the full details of which are provided in the property matrix on pages 32 to 35. Four of these acquisitions offer residential-led development opportunities: Romford in East London; Tubs Hill House in Sevenoaks; a portfolio of five properties in zones one and two of North London, and Percy Place in Dublin. In April 2014, we partnered with Deeley Freed, a Bristol-based property company, providing it with £8.5 million to restructure its facilities and assist in the delivery of seven of its existing projects. The company has a solid track record for delivery and an established regional presence. The majority of its projects are in provincial cities in the South West with a mix of commercial, mixed-use and foodstore-led development opportunities which will be delivered over the next three years.

Disposals

Our strategy was further validated during the year as we secured our exit from a number of projects. At The MVMNT, Greenwich, a 350,000 sq. ft. mixed-use project, Willmott Dixon and McLaren are both on site with the residential and student accommodation elements of the scheme. We also secured funding for the 106-bed hotel, pre-let to Travelodge, which is also now under construction. In late 2014, we will take delivery of the retail and leisure space on the ground floor of the residential blocks to complete the final phase of this regeneration project and early marketing has commenced.

At Rembrandt House, Watford, we completed the £5.6 million sale of part of the site to a local housebuilder with planning consent having been achieved for a 107-unit residential scheme. A 40,000 sq. ft. office building remains on the residual part of the site for which we are exploring development options.

In July 2013, we sold a site at The Old Vinyl Factory to Willmott Dixon for the development of a 132-unit residential development. In April 2014, we entered the final sign-off stage for £7.7 million of loan funding from the GLA's 'Growing Places Fund' for the development of the 'Central Research Laboratory', an innovation hub for start-ups and SMEs which will help to further establish this significant regeneration scheme. In April 2014, we also disposed of the final assets within the Rock portfolio and concluded the sales of underlying assets within the Chrome portfolio. Both of these portfolios were acquired from banks and we have overseen their profitable disposal.

We were also pleased to secure institutional funding on three projects within our development and trading portfolio during the year, at Cross Quarter in Abbey Wood, Shepherd's Bush Market and at The Square, Hale Barns.

Planning success

Securing new or improved planning consents for the projects within our portfolio remains the key driver to growth and positive change. In this regard, we continued to make good progress, securing 16 new planning consents, a 100 per cent success rate. These include outline planning for a significant urban extension project at a 207-acre site north of Norwich, comprising 3,500 homes within a new mixed-use community. At Shepherd's Bush, we secured detailed planning consent for our regeneration project which will include 211 homes, 14,000 sq. ft. of retail space and a revitalised market at the heart of the development. Planning consents were also achieved at projects in Launceston, Barnstaple, Cross Quarter in Abbey Wood, 399 Edgware Road, Marsh Mills in Plymouth and at Atlantic Park in Devon.

Development and trading property portfolio

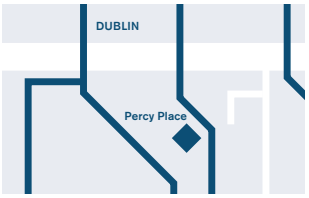
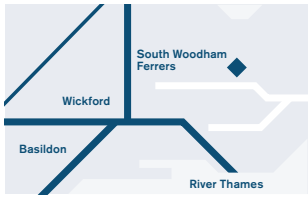
Property status key

Planning submitted | Planning secured | Acquisition | Under construction | Practical completion | Sales achieved | New lettings | Forward/ grant-funded

Asset name, location	Overview	Progress
 **Chrome portfolio, various**	Acquired: August 2012 ▪ £103.0 million real estate loan portfolio acquired in joint venture with the Pears Group. Underlying real estate comprised 65 per cent Central London residential assets with the remainder consisting of neighbourhood retail schemes anchored by Tesco convenience stores and further residential, high street retail and commercial assets	▪ Further profitable sales achieved such that 100 per cent of the portfolio has now been sold
 **Shepherd's Bush Market, London**	Acquired: May 2010 ▪ Six-acre development site including the existing Shepherd's Bush market ▪ Outline planning consent secured in February 2012 for a comprehensive regeneration including: — up to 212 residential units — new retail and leisure units — a revitalised market at the heart of the scheme	▪ £44.1 million funding facility secured with Pramerica to finance the acquisition of the existing market from TfL and to complete the land assembly ▪ Judicial review against our outline planning consent dismissed by the Court of Appeal ▪ Detailed planning permission secured in April 2014 ▪ CPO process to be concluded, with Inspector's report due by May 2014
 **Cross Quarter, Abbey Wood**	Acquired: May 2011 ▪ £85 million regeneration scheme adjacent to Abbey Wood station ▪ Planning secured for a mixed-use regeneration project comprising: — an 81,000 sq. ft. foodstore, pre-let to Sainsbury's — 220 residential units — 5,000 sq. ft. of retail and commercial space	▪ Planning consent secured in April 2013 ▪ £38.1 million of funding secured from Canada Life in February 2014 to finance the development of the Sainsbury's foodstore ▪ Construction of phase one, comprising Sainsbury's foodstore and 32 residential units, underway with targeted completion in Q2 2015
 **The Square, Hale Barns, Cheshire**	Acquired: March 2010 ▪ Retail-led mixed-use redevelopment comprising a 30,000 sq. ft. foodstore anchor pre-let to Booths, additional retail space and 24 residential units	▪ CPO of site concluded enabling vacant possession to be obtained ▪ £14.8 million of funding secured in April 2014 to finance the development of the entire scheme including the residential element ▪ Construction underway and due to complete in Q4 2014 ▪ Marketing of retail units commenced and residential sales to launch in the summer

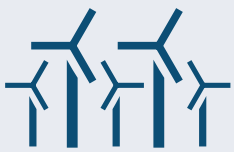
Asset name, location	Overview	Progress
 **399 Edgware Road, London**	Acquired: 2005 ▪ Seven-acre development site in North West London which is currently vacant and derelict ▪ Planning for a foodstore anchored mixed-use development including: — 81,000 sq. ft. Morrisons (pre-let) — 223 residential units — a new Asian foodcourt and retailing centre	▪ Planning consent secured in May 2013 ▪ Under offer with a funding partner to finance the development of the Morrisons foodstore ▪ £12.5 million of cash to be released upon funding ▪ Demolition works commenced
 **The Old Vinyl Factory, Hayes**	Acquired: April 2011 ▪ 18-acre development site acquired in joint venture with Cathedral Group for £16.0 million ▪ Planning consent secured for a £250 million regeneration scheme including: — up to 642 residential units — 550,000 sq. ft. of new commercial space — a nine-screen multiplex cinema — a central street running through the development with cafes and restaurants	▪ The Gatefold building, a 132-unit residential development site, sold to Willmott Dixon's private rented sector brand 'Be Here' for £4.0 million ▪ In final sign-off stage for £7.7 million of loan funding from the GLA's 'Growing Places Fund' for a new entrepreneurs' hub, the 'Central Research Laboratory'
 **North London office portfolio**	Acquired: February 2014 ▪ A portfolio of five office buildings in London, zones 1 and 2 acquired for £17.5 million ▪ The offices offer a combined floor area of 66,800 sq. ft. with vacancy rates at 35 per cent and an annual income of £676,000 representing a 3.65 per cent yield	▪ Contracts exchanged in April 2014 to sell one of the office buildings to recycle equity ▪ Planning change of use for residential-led conversion progressing on three further assets
 **Tubs Hill House, Sevenoaks**	Acquired: November 2013 ▪ A 64,800 sq. ft. office building acquired for £5.5 million from administrators acting on behalf of Lloyds Banking Group ▪ The office building is 200 metres from Sevenoaks station, a prime commuter location with direct access to London	▪ Negotiations continue with current office tenants to obtain vacant possession of the building ▪ Permitted Development Rights obtained for change of use from office to residential ▪ A full planning application is being prepared for a residential scheme including additional floors
 **Tollgate House and Market Place, Romford**	Acquired: July 2013 ▪ 104,400 sq. ft. mixed-use development in Romford acquired for £8.3 million from administrators acting on behalf of Lloyds Banking Group	▪ Lettings achieved on vacant retail and leisure space taking occupancy rates across the scheme to 98 per cent ▪ Construction of second phase of Market Place due to complete in Q2 2014 with the 22 apartments launched for sale
 **Kensington Church Street, London**	Acquired: June 2011 ▪ One-acre gateway site in Central London including 14-storey office block, retail units and car park ▪ Acquired in joint venture with Brockton Capital	▪ Planning application to be submitted following public consultation process

Development and trading property portfolio continued

Asset name, location	Overview	Progress
 **Morden Wharf, Greenwich, London**	Acquired: March 2012 ▪ Part-leasehold, part-freehold, 19-acre site on the Greenwich Peninsula acquired in joint venture with Cathedral Group. The site is cleared, remediated and vacant bar an office building and two warehouses totalling c.128,000 sq. ft.	▪ World-class architect, OMA, appointed to design the masterplan for the scheme ▪ Discussions with freeholder ongoing in order to facilitate the long-term development of the site
 **Percy Place, Dublin**	Acquired: October 2013 ▪ 0.3 acre site in a prime residential location in Dublin, acquired for €2.4 million with a local partner ▪ Planning permission in place for a mixed-use development ▪ The project will include — 4,700 sq. ft. of restaurant and retail space — twelve high quality residential apartments — 6,500 sq. ft. of office space	▪ Pre-let agreed on restaurant unit ▪ Construction works due to commence in Q2 2014
 **Rembrandt House, Watford, London**	Acquired: January 2011 ▪ 3.4-acre site comprising offices and industrial uses including a four-storey office building ▪ Planning permission secured for a residential development of 107 units plus the refurbishment of the existing office building	▪ Consented residential site sold to a housebuilder for £5.6 million in March 2014 ▪ Permitted Development Rights application submitted to convert the remaining office building into residential apartments
 **Friarsgate Shopping Centre, Lichfield**	Acquired: July 2011 ▪ 395,000 sq. ft. retail-led mixed-use regeneration scheme in Lichfield city centre	▪ Heads of terms agreed with a national retailer for a 50,000 sq. ft. anchor store ▪ Redesign of scheme in advanced stages which will align it with the current retail environment ▪ Development management agreement with Local Authority extended until 2016
 **South Woodham Ferrers, Essex**	Acquired: July 2013 ▪ Ten-acre site in Essex with development potential for a foodstore-led development project	▪ Conditional contracts exchanged with current landowners to acquire the site in joint venture with a development partner ▪ Planning application for a mixed-use development in advanced stages ▪ Conditional pre-let signed with Sainsbury's (subject to planning) to anchor the development

Asset name, location	Overview	Progress
 **Deeley Freed**	Acquired: April 2014 ▪ Partnership with leading Bristol-based developer ▪ Medium-term finance provided to enable Deeley Freed to bring forward its existing pipeline of developments	▪ Pipeline includes a number of office, retail and mixed-use developments ▪ Planning consent already secured on a number of projects with strong prospects for further planning gain and pre-lets in the near-term
 **Valentine's House, Ilford**	Acquired: July 2011 ▪ Mixed-use development comprising c.100 residential units and 20,000 sq. ft. of retail space	▪ Permitted Development Rights obtained for conversion of existing office building into residential space ▪ Planning application for a c.100 unit scheme to be submitted in Q3 2014
 **Luneside East, Lancaster**	Acquired: March 2007 ▪ 17-acre site with outline planning for a residential-led mixed-use development comprising: — up to 350 residential units — 80,000 sq. ft. of business space — a 25,000 sq. ft. hotel — 11,000 sq. ft. of ancillary space	▪ £4.0 million 'Growing Places Loan' secured from the Local Enterprise Partnership to fund remediation works on site to prepare it for redevelopment. Works now complete ▪ Contracts exchanged with a housebuilder for sale of the residential site subject to detailed planning consent. The sale will repay the grant monies and kick-start the wider redevelopment
 **Beyond Green, Norwich**	Acquired: November 2010 ▪ 81.5 hectare site North East of Norwich ▪ Strategic land opportunity for primarily residential development. Land controlled by way of an option structure	▪ Outline planning consent secured for a major urban extension including 3,520 new homes ▪ Development to be delivered over the next 15 to 20 years with a start on site anticipated in late 2015

Strategic partnerships

 **Barwood**	Acquired: January 2010 ▪ Joint venture operation with Barwood Group to secure land promotion and strategic land opportunities across the UK. Partnership focuses on promoting land through the planning process for primarily residential development ▪ 26 sites currently under option across three funds	▪ Planning consent secured on five sites ▪ 90-unit residential scheme in Kineton, Warwickshire, sold to a housebuilder
 **Wind farms**	Acquired: August 2011 ▪ Joint venture arrangement with Njord Energy to secure and promote five sites for medium sized, onshore wind farms	▪ First planning application submitted with three further applications to follow in Q2 2014

Major developments portfolio

Positioned well for the next phase

The modest size of our Balance Sheet and our risk averse approach to specific development exposures has largely precluded us from involvement in major projects in the Central London core. Instead, we have focused on locations on the edge of Central London where supply of high quality offices has been constrained, demand is credible and location fundamentals are strong. In these markets, where aggregate demand may indeed be reducing and where occupiers are more price sensitive, we are required to be discerning with regard to the product that we deliver and the specific sites we select. We are pleased to report that the delivery of premium quality office developments in these markets has proven to be a valid proposition.

In summer 2013, we completed 10 Hammersmith Grove, a 110,000 sq. ft. Grade A office building, on time and within budget. The two restaurants are let to Byron Burger and Bill's Produce and our first office letting to UKTV, who will take two floors of the building, was signed in February 2014. Our discussions with other tenants are advancing well and 80 per cent of the office space is now let or in solicitors' hands with just a floor and a half available. Average rents agreed are 15 per cent above the pro forma rent of £40 per sq. ft. In March 2014, we agreed terms with SWIP Property Trust, the institutional funder of 10 Hammersmith Grove, to forward-fund the next and final phase of this development for £92.0 million. 12 Hammersmith Grove will provide 167,000 sq. ft. of prime office space with new restaurant space and additional public realm. Construction will start imminently with completion anticipated in Q1 2016. The supply of competing office space of this quality in Hammersmith remains very limited.

Since 1st March 2013, we have secured two other major development opportunities in London. In October 2013, we secured an agreement to acquire Algarve House, a derelict office building adjacent to Southwark underground station. Our masterplan for the redevelopment of the site is advanced and we anticipate starting the public consultation process in summer 2014. In April 2014, in conjunction with a financial partner we exchanged conditional contracts to acquire an income-producing office building at a cost in excess of £75.0 million in Central London, with potential for redevelopment on site.

Algarve House, adjacent to Southwark underground station.

In April 2014, we were selected, alongside our operating partner Prorsus, by two Government agencies, the United Kingdom Atomic Energy Authority and the Science and Technology Facilities Council as their private sector partner at Harwell Oxford. The site comprises 700 acres in total, of which approximately 30 per cent is already developed as a science Campus of international standing. Our role is to bring forward future phases of development for commercial science and research companies for whom the proximity of the Government's various large-scale facilities confer competitive advantage.

Top: 10 and 12 Hammersmith Grove.
Bottom: Brunel Place, Slough.

At Cambourne Business Park, we are confident that the activity levels of Cambridge city centre will now ripple towards this location. There is a case for speculative development, and we shall be embarking on a number of discussions with partners this year.

At Cambridge Science Park, we are Trinity Hall's development managers for three office and laboratory buildings totalling 133,000 sq. ft. We were delighted to start on the first laboratory and office building in January 2014, which is pre-let to the UK subsidiary of a leading Japanese pharmaceutical company.

Harwell Oxford, Cambourne and Cambridge Science Park are all located in important knowledge clusters, where the strength of occupier demand is driven by proximity to a highly educated and specialist workforce. These 'innovation' clusters are one of the success stories in office real estate markets outside London.

Slough has been slightly slower to recover as a significant office location than we had hoped, but the tide is undoubtedly on the turn and our scheme at Brunel Place of 350,000 sq. ft. of offices is looking increasingly good value when compared with Central and West London.

It was of course with some sadness that we gave up our role as developers of PaddingtonCentral as Aviva, our partner of some 15 years, exercised their right to sell the estate which we had jointly created, to British Land. Having delivered a regeneration project of some 1.2 million sq. ft. of commercial-led mixed-use regeneration, we were compensated by a payment of £7.1 million.

Investment portfolio

Values increase as regional investment market rebounds

Overview and performance

During the year, the value of our investment portfolio including our share of joint venture assets increased by £4.8 million as the regional investment market recovered from the decline of the previous few years. As anticipated, we are seeing a marked increase in investor appetite for the types of regional retail assets that our portfolio comprises and, as such, liquidity and competitive tension is returning to these markets. The resultant yield compression has largely accounted for the positive change in our portfolio. In addition, we continued to drive value across our portfolio through proactive asset management and enhancement, with resultant vacancy rates falling to 6.3 per cent from 9.7 per cent as at 28th February 2013. We completed £0.4 million of new lettings during the year.

With investor demand increasing, we have accelerated the disposal of a number of assets where our business plan is now complete. In October, we sold the Phones 4u Arena in joint venture with Patron Capital for £82.1 million. We also secured the sale of our office and retail scheme in Chorlton-cum-Hardy near Manchester for £10.1 million, generating gains of £1.2 million. In March 2014, we sold Weeke Shopping Centre in Winchester to an institutional fund for £23.3 million. In April 2014, we sold at book value a portfolio of investment assets comprising retail assets in Bexleyheath, Carmarthen, Crewe and Port Talbot for £21.0 million.

In February 2014, we acquired the Royal York Buildings, a former hotel in Brighton, for £4.5 million which we simultaneously let to the Youth Hostel Association on a 100-year lease, who will convert the property into a 180-bed youth hostel. The property offers further asset enhancement potential and currently generates an income return of 7.3 per cent. In April 2014, we exchanged contracts to acquire a foodstore-anchored retail centre in Armagh, Northern Ireland, for £7.4 million, a 9.1 per cent net initial yield. The shopping centre offers opportunities for asset management and enhancement, with some scope for redevelopment on site.

Outlook

We continue to focus on foodstore-anchored retail investment assets in strong provincial markets, where we can add value through asset management and enhancement. With the UK economy strengthening and consumer confidence building, we anticipate further growth in our portfolio in the near-term. Where appropriate, we will seek to dispose of non-core assets in order to rationalise our portfolio and recycle our equity into further investment assets which offer stable, long-term income prospects and opportunities for value growth through asset enhancement.

Top five occupiers as at 28th February 2014

	Annual rent £'m	% of contracted rent
Waitrose	2.1	14.6
Primark Stores	0.5	3.5
Sports World	0.5	3.4
Martin McColl	0.5	3.3
Trillium Secretary of State	0.3	2.4

Top: Weeke Shopping Centre, Winchester, sold in March 2014.

Bottom: Royal York Buildings, Brighton, acquired in February 2014.

Investment property key statistics

Investment property – key statistics

	Portfolio value £m	Contracted rent £m	Number of assets held No.	New lettings in period £m/sq.ft.	Initial yield* in period %	Equivalent yield* %	Voids* %	Rate of rental collections within 30 days %
28th February 2014	**202.10**	**14.14**	**42**	**£0.43m/34,597 sq.ft.**	**7.21**	**7.70**	**6.27**	**98.69**
28th February 2013	220.07	15.47	42	£0.43m/40,349 sq.ft.	7.50	7.89	9.70	96.25

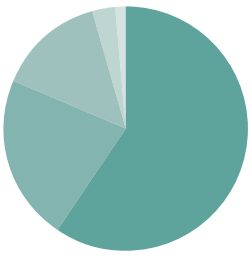
*Based on the core investment property assets only.

Income generating properties – Like-for-like rental income received

	Property owned throughout the year £'000	Acquisitions £'000	Disposals £'000	Total rental income £'000
				Year ended 28th February 2014
Investment	**14,254**	**13**	**718**	**14,985**
Development and trading	**2,611**	**1,007**	**46**	**3,664**
Joint ventures	**803**	**555**	**1,159**	**2,517**
	17,668	**1,575**	**1,923**	**21,166**
				Year ended 28th February 2013
Investment	14,991	–	1,041	16,032
Development and trading	1,925	24	670	2,619
Joint ventures	1,140	240	1,729	3,109
	18,056	264	3,440	21,760

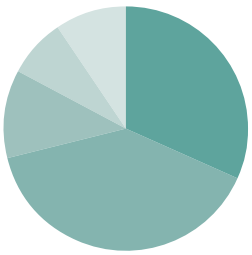
Completed investment portfolio – 28th February 2014

Gross rental income – tenant profile



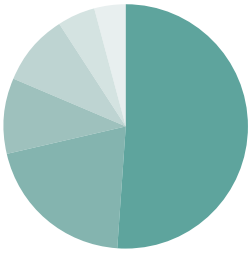
PLC/nationals	59.5%
Local traders	21.9%
Regional multiples	14.3%
Government	3.0%
FTSE 100	1.3%

Gross rental income – lease term profile



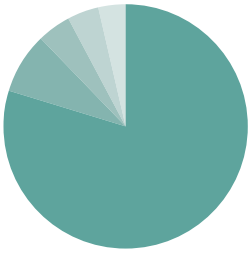
0 - <5 years	31.8%
5 - <10 years	39.5%
10 - <15 years	11.6%
15 - <20 years	7.7%
20 years +	9.4%

Capital value – location profile



South East	51.3%
South West	20.1%
Wales	10.0%
North	9.6%
London	5.0%
Midlands	4.0%

Capital value – sector analysis



Retail	80.0%
Mixed	7.9%
Office	4.4%
Industrial	4.3%
Residential	3.4%

Investment property portfolio

Property status key

Planning submitted | Planning secured | Acquisition | Under construction | Practical completion | Sales achieved | New lettings | Forward-funded

Asset name, location	Overview	Progress in 2014	Key Metric
 Wick Lane Wharf, London	▪ 112-bed residential block in Hackney Wick, East London acquired in April 2012 in joint venture with Realstar Group	▪ Full occupancy of rental units maintained with an average of 2.5 per cent rental increase in the year ▪ 30 units which were surplus to the core business plan have been sold at values 14.0 per cent in excess of initial underwrite	100 per cent let
 Furlong Shopping Centre, Ringwood	▪ 85,000 sq. ft. retail centre anchored by Waitrose in an affluent catchment area ▪ Key tenants: Jaeger, Hobbs, AGA, Phase Eight, Joules and Crew Clothing	▪ All tenants continue to trade well. Waterstones has taken an ex-Peacocks unit ▪ Plans for extension of the scheme have been revised to include some residential units with application to be submitted later this year ▪ New planning consent achieved for 3,000 sq. ft. of affordable retail to enhance the 'independent' offer at the centre	Shop income improved by £90,000 per annum Waitrose income increased by 2.5 per cent per annum Value increase of 5.2 per cent from 28th February 2013
 Crown Glass Shopping Centre, Nailsea	▪ A local shopping centre in a Bristol suburb anchored by Waitrose (not in ownership) and a mixture of national multiple and local retailers ▪ Ownership also includes a large car park with development potential for additional retail floorspace ▪ Key tenants: WHSmith, JD Wetherspoon, Boots and HSBC	▪ Lease regears completed with key tenants – Iceland, New Look, Superdrug and Boots – achieving longer unexpired terms	£0.2 million (24 per cent of total) of core income from national multiple retailers regeared during the year
 89 - 107 Queen Street, Cardiff	▪ Unbroken retail parade comprising eight shop units in Central Cardiff	▪ Parade now fully let.	7.3 per cent income increase 2.8 per cent valuation increase from 28th February 2013

Asset name, location	Overview	Progress in 2014	Key Metric
 Kingsland Shopping Centre, Thatcham	▪ 42,000 sq. ft. local shopping centre anchored by Waitrose foodstore ▪ Key tenants: The Co-operative, Costa Coffee and Lloyds Pharmacy	▪ Waitrose lease extended by ten years to 19 years with five yearly rent reviews and fixed 2.5 per cent uplifts per annum ▪ Refit of store now complete including new café to increase dwell time and improve footfall	10.7 per cent value increase since 28th February 2013 4.7 per cent increase in ERV
 Swanley Shopping Centre, Kent	▪ An 85,000 sq. ft. town centre retail scheme benefitting from a 100,000 sq. ft. ASDA opposite (not in ownership) and conveniently located off the M25/M40 motorways ▪ Key tenants: Wilkinson, Poundland, The Co-operative, Boots, Superdrug and Holland & Barrett	▪ Car park charges introduced, significantly contributing to income and capital growth ▪ All retail tenants continue to trade well ▪ Redundant office space within the scheme converted into residential accommodation which is letting well	10.6 per cent value uplift since 28th February 2013 Net rent increased by £84,000 per annum
 Colston Tower, Bristol	▪ A multi-let office and retail building in Bristol's central business district comprising: — 64,000 sq. ft. of office space — 21,600 sq. ft. of retail units	▪ Refurbishment and remarketing activities resulted in increased rental tone	Occupancy rate of 83 per cent
 Armagh, Northern Ireland	▪ Contracts exchanged to acquire for £7.4 million in April 2014 ▪ Covered town centre shopping mall anchored by a 49,000 sq. ft. Sainsbury's food store with an additional 12,000 sq. ft. of retail space across ten units ▪ Key tenants: Burger King, New Look and United Colours of Benetton	▪ Marketing void unit to coffee operators ▪ Development site on adjoining car park for 17,000 sq. ft. of additional retail space. Target tenants are value and convenience retailers	9.1 per cent net initial yield
 Royal York Buildings, Brighton	▪ A Grade II-listed building in the centre of Brighton, formerly the Royal York Hotel, acquired for £4.5 million from an administrator acting on behalf of Lloyds Bank ▪ The building comprises 45,600 sq. ft., nine serviced apartments and 3,400 sq. ft. of retail and amenity space	▪ Planning consent secured for change of use from a hotel to a youth hostel ▪ Former hotel space let to the YHA on a 100-year lease at £200,000 per annum ▪ Income generation opportunities being explored for vacant basement and retail space within the property	100-year lease secured with the YHA
 Atlantic Village and Atlantic Park	▪ 110,000 sq. ft. outlet scheme in popular tourist town anchored by ASDA (not in our ownership) ▪ Key tenants: Nike, M&S, Gap and Holland & Barrett ▪ Atlantic Park is a mixed-use development site opposite to Atlantic Village with the first phase of development comprising a fast-food drive through, a hotel and a restaurant	▪ Values and occupancy levels at Atlantic Village stabilised during the year ▪ At Atlantic Park, land sales agreed with McDonalds and Marstons and planning consent secured for the first phase of development	Values and occupation levels stabilised

Review of the year

Review of the Year

The last year has seen an improvement in the UK economy, both in terms of GDP growth and also business sentiment as the recovery from the downturn continues. At the same time, we have seen a continued trend of overseas capital focusing on UK markets for investment and the flow of capital into the regions and more secondary assets has started to increase.

Conditions have continued to ease in the debt markets for real estate, with pressure beginning to reduce margins as banks compete for new business and also contemplate longer duration loans than has been possible for the last three years, albeit there is still a focus on higher quality sponsors and projects. To that end, it is pleasing to report that we have continued to source funding from our existing long-term banking partners for the acquisition of the Romford property in July 2013 and also the North London office portfolio of five office buildings in February 2014. We have also utilised debt from one of the newer debt fund entrants into the market with the £44.1 million facility for our joint venture at Shepherd's Bush, which has already been partially utilised to acquire the Shepherd's Bush Market in February 2014.

We have been able to acquire these exciting new opportunities to add value, whilst at the same time realising a number of projects where we have either completed our business plan or believe that we cannot achieve further significant added value going forward.

Notable disposals during the year have included the Phones 4u Arena in Manchester where, in conjunction with our joint venture partner Patron Capital, we were able to achieve a sale at £82.1 million for an asset originally acquired for £62.2 million in June 2010. This year also saw the conclusion of our 15-year involvement in the redevelopment of PaddingtonCentral, where we received a final compensation payment of £7.1 million when our partners disposed of their holding. We have also now successfully completed the disposal programme of the Chrome portfolio where all of the underlying assets have now been realised.

We have continued our process of improving the efficiency of our Balance Sheet by seeking to monetise legacy, non-income earning positions. The most significant element of this was the disposal of 19 acres of land at Broughton for £11.4 million. Good progress has also been made at 399 Edgware Road where detailed planning consent for the Morrisons food store was achieved. We have also managed to renegotiate the structure of our long dated €47 million loan notes and associated hedging arrangements, which was concluded in March 2014. The effect of this has been to release £9.7 million of non-income generating cash collateral back to the Group for investment whilst also reducing the annual finance cost to the Group going forward by £0.8 million through to the revised seven year maturity.

As at 28th February 2014, our weighted average debt maturity was 6.8 years (6.4 years including share of joint ventures), compared with 8.3 years as at 28th February 2013 (7.1 years including share of joint ventures).

As at 28th February 2014, net debt, including share of joint ventures, stood at £181.9 million, a decrease from £196.1 million at 28th February 2013. This represents gearing of 56.8 per cent, comfortably within our normal target level of 50-60 per cent, which is as expected given the number of realisations during the year. As at 30th April 2014, net debt had fallen to £193.2 million, representing gearing of 39.3 per cent.

If joint ventures are excluded, the Group's gearing was 48.0 per cent as at 28th February 2014, compared with 47.9 per cent a year earlier. The Group's overall loan-to-value ratio, calculated as net debt divided by total property assets, was 44.7 per cent (28th February 2013: 38.0 per cent).

Capital structure and liquidity management

The Group's strategy for capital structure and liquidity management is to maintain a conservative balance between equity and debt appropriate to the nature and profile of our asset portfolio, achieving both certainty and flexibility. This takes into consideration our operational strategy and our intention for each asset, together with our expectations for the availability and cost of alternative sources of finance.

In particular we operate within a structure which limits the level of our equity exposure to any particular asset and also the level of external debt which can be applied.

Our cash resources and overall liquidity are managed at Group level, with each asset or project monitored according to its own specific risk profile.

All development and trading assets have business plans which include timetables for realisation. The Group always retains a cash buffer to ensure that delays in planned asset realisations do not impact upon the normal operation of the business.

Where we enter into debt facilities, secured against assets, we do so in a way that matches debt profile against asset profile.

We have long-term fixed rate debt facilities which are used to fund long-term investment assets. In respect of shorter-term trading assets, we fund these with asset specific debt which is structured to support the individual asset business plan.

Within our debt portfolio we maintain a mix of fixed and variable interest rates, with a preference for fixing of both larger and longer-term borrowings so as to significantly mitigate our interest rate risk. For shorter maturity facilities our preference is to cap our interest rates exposure rather than to fix it.

The Group does not usually take development risk on large scale major development projects. This risk is mitigated in several ways, including the completed forward sale of the land and project assets through to the contracted sale of the completed development with appropriate guarantees of completion. Where direct development is undertaken on more modest schemes, this is funded by way of Group equity and medium-term bank facilities, providing the necessary flexibility of funding for both site assembly and construction.

Investments in joint ventures and associates are funded directly with equity. Any gearing is deployed within the ventures themselves.

Responsibility for the management of cash and liquidity risk rests with the Board. The executive team has systems in place for the monitoring and management of this key area of our business. Daily review of this area is delegated to the Finance Director. The executive team consider this on a weekly basis and the Board formally reviews the position at its meetings, which occur at least eight times per year.

The principal tools utilised for the management of cash and liquidity are:

- 15-month risk-analysed cash flow forecast
- Schedule of all debt facilities and amounts drawn against them
- Summary of net debt, including derivative instruments
- Summary of current cash deposits including liquidity thereof
- Formal commentary on the above by the Finance Director prepared for each Board meeting.

Short-term liquidity requirements are fairly predictable and are managed out of existing cash resources. Cash requirements are monitored on a weekly and monthly basis. Cash buffers are retained to ease cash flow management.

Medium-term liquidity is provided through a mix of the Group's equity and its debt facilities. The Group has strong long-term relationships with a diversified range of major lenders and as such has not been restricted in its ability to raise new debt for investment, trading or development projects.

Longer-term liquidity and the Group's capital structure are reviewed on a regular basis by the Directors, taking account of relevant factors including the real estate cycle, changes in the nature and liquidity of the Group's asset portfolio, forthcoming risks and opportunities and the markets for debt and equity finance. This is formally considered at least twice a year by the Group's Risk Committee, which reports to the Board, as a part of the annual strategy review and also as appropriate at each Board meeting.

As at 28th February 2014, restricted cash balances were £27.3 million (28th February 2013: £11.5 million). The increase is as a result of investment property disposals. Since the year end £9.7 million collateral has been released following the renegotiation of the €47.0 million loan notes and £7.8 million on substitution of an asset into a charged facility.

Cash management

Group cash resources are managed in accordance with our policy, which prioritises security, liquidity and counterparty risk ahead of absolute returns, with limits set by the Board in respect of minimum credit ratings for and maximum exposures to individual counterparties.

Cash may be invested across a range of instruments including instant access and term deposits, money market funds and commercial paper. As at 28th February 2014, the Group had £67.3 million of cash held with ten different counterparties.

Current bank facilities and borrowings

The Group's bank facilities are set out in the following table. As at 28th February 2014, the Group had borrowings of £221.1 million (28th February 2013: £206.0 million). Cash balances were £67.3 million (28th February 2013: £59.2 million), including amounts of £27.3 million held as restricted deposits, giving net debt of £153.8 million and gearing of 48.0 per cent (28th February 2013: £146.8 million and gearing of 47.9 per cent).

The Group's share of net debt in joint ventures was £28.1 million (28th February 2013: £49.3 million); if this is aggregated with Group balances then net debt rises to £181.9 million and gearing to 56.8 per cent (28th February 2013: £196.1 million and 63.9 per cent).

During the year, the Group, together with its joint ventures, has drawn new borrowings of £50.0 million. Included within this have been new facilities as follows:

- £8.0 million purchase and redevelopment of Romford
- £10.5 million acquisition of North London office portfolio
- £16.2 million acquisition of Shepherd's Bush Market
- £14.0 million refinancing of Wick Lane Wharf

The Group has also repaid £78.2 million of borrowings as individual assets have been disposed of, including:

- £43.5 million disposal of Phones 4u Arena in Manchester
- £31.6 million disposal of Chrome portfolio assets

Group's bank facilities

Facility type	Notes	Total facility £'000	Utilised as at 28th Feb 2014 £'000	Interest rate	Maturity	Principal financial covenants: Loan to value ratio	Principal financial covenants: Interest[1] cover ratio	Principal financial covenants: Minimum[1] net worth £'000
Loans financing longer-term assets								
Term loan		3,000	3,000	Variable	08-Jul-14	–	–	–
Term loan	6	9,000	9,000	Variable	29-Jul-14	65%	150%	–
Term loan	6	5,669	5,110	Hedged	24-Nov-14	60%	150%	–
Term loan	6	1,531	1,380	Hedged	24-Nov-14	60%	150%	–
Term loan	6	6,200	5,320	Variable	12-Jul-15	80%	–	–
Term loan		1,550	1,475	Hedged	09-Aug-15	70%	120%	–
Term loan		4,500	4,087	Hedged	06-Oct-15	60%	200%	100,000
Term loan		1,500	1,500	Hedged	06-Oct-15	80%	110%	100,000
Term loan	3	14,000	14,000	Hedged	20-Oct-16	55%	140%	100,000
Revolving credit		38,000	37,713	Hedged	16-Dec-16	70%	105%	–
Term loan		57,565	53,586	Fixed	12-Mar-25	80%	110%	–
Term loan		22,470	21,113	Fixed	12-Mar-25	80%	110%	–
Loan notes	2	32,844	32,844~	Hedged	25-Oct-27	–	–	100,000
Debenture		20,000	20,000	Fixed	06-Jan-16	66%	–	–
Loans financing development and trading assets								
Revolving credit	3, 5	2,500	–	Variable	30-Mar-14	50%	150%	–
Term loan	3, 4	7,000	6,550	Hedged	30-Mar-14	50%	150%	–
Term loan	3	26,000	26,000	Hedged	23-Jun-14	60%	125%	100,000
Term loan		1,000	934	Variable	08-Feb-15	60%	–	–
Term loan	3	15,610	8,710	Variable	06-May-15	–	–	–
Term loan		10,000	7,965	Hedged	20-Jun-15	–	–	–
Term loan	6	2,500	2,367	Variable	10-Jul-15	–	–	–
Term loan	3	4,895	4,829	Hedged	12-Apr-17	50%	120%	–
Term loan		10,500	10,500	Variable	13-Feb-17	–	–	–
Term loan	3	44,145	16,164	Fixed	24-Feb-19	85%	–	–
Term loan	3	5,295	5,181	Variable	18-Sep-26	65%	150%	–

1 Interest cover ratios are specific to the loan and the relevant property. Minimum net worth refers to the net asset value of the Group per its latest Balance Sheet (28th February or 31st August).
2 These unsecured, variable rate loan notes are denominated in Euros, with a nominal value of €47 million. The Group has entered into a cross-currency interest rate swap, such that interest rates are fixed and the Group will repay a fixed Sterling amount. The minimum net worth covenant applies to the hedge rather than the loan notes. The hedge was cancelled in March 2014 when the loan notes were refinanced.
3 Loans relating to Joint Ventures represent the total loan facility and not the Group's share.
4 This facility has since been refinanced. The new facility is £6.9 million and is repayable on 30th March 2015.
5 This facility has now expired and has not been extended.
6 This facility has been repaid since 28th February 2014.
~ Represents the amount of the Group's liability in Sterling taking account of the hedging instrument. This facility has since been refinanced.

Gross committed facilities as at 30th April 2014 total £193.2 million with a weighted average term of 6.4 years, the earliest maturity arises in June 2014. Unutilised facilities are £2.1 million.

Since 28th February 2014, the Group has successfully renegotiated the terms of its €47 million Loan Notes. The duration of the notes has been reduced, margins and hedging have been renegotiated and collateral has been released.

The Directors keep bank covenants (typically loan to value and interest cover ratios) under review, and are content with the current position. The aim is to agree loan to value covenants at comfortably tolerable levels with sufficient headroom for foreseeable changes in either the general market or specific assets. We also incorporate cure mechanisms into facility agreements such that we have an appropriate opportunity to restore covenant compliance by making cash deposits or repayment as required.

Interest rate risk and hedging

As at 28th February 2014, the summary of the Group's interest rate exposure was as follows:

	Excluding share of joint ventures %	Including share of joint ventures %
Fixed rate	43.5	41.1
Floating rate, swapped into fixed	39.7	35.9
Floating rate with cap	2.5	6.5
Floating rate	14.3	16.5

The weighted average interest rate payable was 5.8 per cent, 5.7 per cent including joint ventures (28th February 2013: 5.9 per cent and 5.5 per cent respectively).

Facilities with variable rates of interest, in particular longer-term facilities, expose the Group to the risk of interest rate fluctuations. This risk is constantly reviewed by the Directors who regularly consider the possibility and likely cost of extending interest rate hedging.

Currently a mix of fixed and variable rates is maintained in order to provide a degree of certainty, whilst at the same time benefiting from historically low absolute levels of rates. Longer-term facilities tend to be structured with fixed rates.

A key element in all hedging arrangements is counterparty risk, i.e. the potential failure of the counterparty to the transaction. The Group mitigates this risk by only transacting with major banks and institutions. There is currently no indication that any of the Group's hedge counterparties may be unable to settle its obligations.

Interest rate derivatives are marked to market in the Balance Sheet, giving rise to the risk of fair value movements in the instrument and a consequent impact on net asset value. At 28th February 2014, the Group held a cross-currency interest rate swap, which was designated as a cash flow hedge. Movements in the foreign currency leg of this swap provided a hedge against movements in the retranslation of the €47 million loan notes. Movements in the interest rate leg have been taken to reserves. The effects of these fair value adjustments in the year ended 28th February 2014 are set out in note 18. In March 2014, the terms of the €47 million loan notes have been substantially renegotiated and as a consequence the cross–currency interest rate swap has been terminated and alternative hedging arrangements put in place.

Development and trading portfolio

The principal financial instrument risks in these assets are the credit risk of transaction counterparties. Given the nature of these assets the amounts owed to the Group can be significant. These arrangements are monitored very closely both before contracts are exchanged as part of our due diligence procedures and throughout the execution period.

As at 28th February 2014 the Group had no material, unsecured debtors in respect of the sales of development and trading assets.

In respect of certain transactions, the Group contracts to provide funding for the development of either individual phases or whole schemes. The Directors are satisfied that the combination of the Group's risk averse approach to development funding, its rigorous selection of development partners and its focused and active management of each project provide appropriate comfort over the risks of these financial exposures.

Investment portfolio

The principal financial instrument risk in the investment portfolio is the credit risk implicit in potential tenant failure which, in light of economic conditions, is heightened in all sectors, and most notably amongst retail tenants. The Group maintains the portfolio under continual review. The portfolio is managed by local agents, with active involvement by the Group's investment team. The Board receives at each of its meetings, analyses of tenant profile (including the concentration of credit risk, both by sector and by entity), existing and anticipated voids, overdue rents, and future and outstanding rent reviews, as well as a formal commentary by the investment team. The current profile of the portfolio and comments on performance in the year are set out in the Operating Review on pages 30 to 41.

Projects in partnership

The Group conducts a number of projects in partnership with others, where the Group brings both development expertise and funding. These interests are carried in a number of balance sheet categories, and are summarised in note 27 to the Group financial statements.

The financial instrument risks in respect of projects in partnership are the credit risk implicit in the financial strength and integrity of the operating partner, the contractual risk in the partnership arrangements and the operating success of the venture. The Group manages these risks by securing appropriate rights in each case over the use of the Group's invested capital and by active participation in the joint strategic and operating control of the ventures.

Contingent liabilities

Contingent liabilities are described in note 24 to the Group financial statements. The Directors ensure that these risks are appropriately documented and monitored, and that the risk of actual liabilities arising is restricted so far as is possible.

Foreign currency risk

The Group's operations are conducted predominantly in the UK. The Group's principal exposure to foreign currency movements is in the €47 million Euro-denominated loan notes and the corresponding €6.9 million security deposit. The loan notes are fully hedged to provide an effective Sterling liability. In March 2014, the Group renegotiated the €47.0 million loan notes and terminated the cross-currency interest rate swap. Alternative hedging arrangements have since been put in place.

The details of the Group's sensitivity to exchange rate movements are set out in note 18(d) to the Group financial statements.

Outside of the UK, the Group has now commenced business in Dublin and as such is exposed to foreign currency risk on its Euro-denominated property investments. At 28th February 2014, the Group had Euro-denominated investments of £3.2 million. The Directors actively monitor the overall Group exposure to Euro-denominated assets and liabilities and the associated currency risk.

Maximum credit risk exposure

The Directors consider that the maximum credit risk exposure in each class of financial asset is represented by the carrying value as at 28th February 2014.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 8 and 11, in the Chief Executive's Statement on pages 6 and 7 and in the Operating Review on pages 30 to 41. The financial position of the Group, its cash flows, liquidity position, borrowing facilities and financial instrument risks are described in the Financial Review on pages 42 to 48, which also covers the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk. Note 18 to the financial statements gives further information about the Group's financial instruments and hedging activities.

The Group has considerable financial resources. The Directors maintain a risk-averse capital structure, with gearing typically in the range of 50-60 per cent and long average debt maturities, with borrowings spread across a number of lenders. The Group continues to enjoy access to bank finance, as demonstrated by loans arranged during the year. Banking covenants are regularly monitored and appropriate cure mechanisms are incorporated in facility documents.

The Directors are alert to potential liquidity risk in the Group's cash flow forecasts. The Directors keep both short- and medium-term cash flows under continual review, and moderate outflows according to the level of this uncertainty. The model preserves a cash liquidity buffer at all times, to protect against delays in asset realisations.

The Group's rental income is also subject to risk of delay or non-payment. This risk is mitigated by proactive asset management, which includes close monitoring of tenant resilience, and a strong focus on actual and potential voids.

As a consequence of the above, the Directors believe that the Group is well-placed to manage its business risks successfully. In addition, by closely monitoring the Group's forecasts and projections, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the financial statements.

Result for the year and movement in net asset value

Total comprehensive income for the year ended 28th February 2014 was a profit of £19.5 million (28th February 2013: £2.2 million). After dividend payments of £5.9 million, net asset value increased by £13.6 million to £320.3 million (28th February 2013: £306.7 million), representing an increase of eleven pence per share to 262 pence per share (28th February 2013: 251 pence per share).

The movement in net asset value may be analysed as follows, excluding revaluation movements, profit before interest and taxation for the year ended 28th February 2014 was £25.7 million (year ended 28th February 2013: £23.8 million. Net interest costs (excluding interest rate swap movements) for the year were £11.9 million (year ended 28th February 2013: £9.3 million) aggregating to a realised profit for the year of £13.8 million contrasting with the realised profit for the year to 28th February 2013 of £14.5 million.

Investment property valuation gains for the year, including our share of joint ventures, totalled £4.8 million (year ended 28th February 2013: £12.8 million write down). This has been a reflection of the gradual improvement in secondary yields as detailed below and discussed in more detail in the Operating Review on pages 30 to 41.

Net rental income

Gross rental income from the investment portfolio for the year ended 28th February 2014 was £15.0 million. After direct costs of £2.6 million, the net rental income for the year was £12.4 million, which is a 2.5 per cent increase when compared to the £12.1 million for the previous year on a like for like basis.

The Group also earned net rental income of £2.8 million from the development and trading portfolio, an increase from the £1.7 million earned in the year ended 28th February 2013.

Development and trading profits

During the year under review, across its direct and joint venture holdings, the Group made development and trading profits of £27.0 million (28th February 2013: £28.1 million) including the £2.9 million performance fee from the successful realisation of the Phones 4u Arena, which is shown within our investment segment.

Development and trading profits can be analysed as follows:

	28th February 2014 £m	28th February 2013 £m
Development and trading segment result	**16.4**	19.7
Share of results of joint ventures	**7.5**	4.8
Provision against legacy assets	**0.2**	2.3
Gains from financial asset	**–**	1.3
Phones 4u Arena performance	**2.9**	–
	27.0	28.1

Further details of development and trading activities can be found in the Operating Review on pages 30 to 41.

Operating costs

Operating costs of £14.0 million for the year were seven per cent ahead of the equivalent figure of £13.0 million for the previous year.

Net finance costs

Finance costs for the year were £13.5 million, slightly higher compared to the £12.2 million for the previous year. This reflects a lower amount of interest being capitalised during the last year on development and trading properties.

Investment portfolio

During the course of the year, the investment property portfolio has decreased to £202.1 million from £220.1 million at 28th February 2013, mainly due to asset disposals.

At 28th February 2014, the valuation of the investment property portfolio increased by £4.8 million (28th February 2013: write down of £12.8 million), including our investment properties held under joint venture.

Further details of acquisitions, disposals and valuation movements are set out in note 10 to the financial statements, and further analyses of the performance and management of the portfolio are given in the Operating Review on pages 38 to 41.

Inventory – development and trading properties

After allowing for continued investment in and development of the portfolio of £69.3 million, the portfolio stood at £192.5 million at 28th February 2014 (28th February 2013: £153.4 million). Further details are contained within the Operating Review on pages 14 to 41.

Associates and joint ventures

Reflecting our strategy of working with partners and other equity sources, investments in associates and joint ventures has continued during the year. The Group's interests in projects in partnerships are structured in a number of different accounting categorisations. Note 27 to the financial statements summarises the position.

The current carrying values of associates and joint ventures are analysed in note 14. Notable additions to our joint venture portfolio are the acquisition of a 50 per cent share in the Shepherd's Bush Market regeneration project and Harwell Oxford.

Financial assets and financial liabilities

Financial assets and financial liabilities are analysed in note 18 to the Group's financial statements.

Derivative financial instruments

The Group's Euro-denominated loan notes and the related cross-currency hedge are carried as separate instruments in the Balance Sheet. During the year, Sterling strengthened against the Euro, decreasing the Sterling liability of the loan by £1.7 million to £38.7 million.

Other financial assets

Other financial assets include loans to a number of joint operations and associate companies which reflects the way in which the Group invests in these activities.

The largest loan is to Northpoint Developments Limited (formerly CTP Securities Limited) which, together with accrued interest at 28th February 2014, totals £17.0 million (28th February 2013: £15.9 million). A further £1.1 million was funded in respect of Morden Wharf, Greenwich, our joint operation with Cathedral Group.

Cash and borrowings

Details of the Group's borrowings and cash management are set out in note 18(b) and (d) to the financial statements and in the Financial Review on pages 43 to 45.

		28th February 2014	28th February 2013
Group net debt and gearing			
Gross debt	£m	**(221.1)**	(206.0)
Cash and cash equivalents	£m	**67.3**	59.2
Net debt	£m	**(153.8)**	(146.8)
Net assets	£m	**320.3**	306.7
Gearing	%	**48.0**	47.9
Weighted average debt maturity	years	**6.8**	8.3
Weighted average interest rate	%	**5.8**	5.9
Including joint ventures:			
Share of net debt in joint ventures	£m	**(28.1)**	(49.3)
Gearing	%	**56.8**	63.9
Weighted average debt maturity	years	**6.4**	7.1
Weighted average interest rate	%	**5.7**	5.5
Adjusted gearing	%	**39.2**	38.2

The gross debt figure includes the €47 million 2027 Unsecured Subordinated Loan Note facility, stated in Sterling at the current value of £38.7 million (28th February 2013: £40.5 million) and ignoring the hedging instrument. If these long-term loan notes are removed from borrowings, gearing falls to 39.2 per cent. This is calculated by deducting from net debt the current retranslated value of £38.7 million (28th February 2013: £40.5 million) and adding back relevant restricted cash balances of £9.7 million (28th February 2013: £10.0 million) and transaction costs of £0.9 million (28th February 2013: £0.9 million).

Loan to value gearing

Net debt expressed as a proportion of total property assets (including shares of properties and net debt in all projects in partnerships) was 44.7 per cent (28th February 2013: 38.0 per cent).

Taxation

The net current tax charge in the Statement of Comprehensive Income was £1.1 million, principally in respect of tax on trading profits in excess of group relief. The Group has significant potential deferred tax asset balances and the Directors previously restricted recognition to the amount of corresponding deferred tax liabilities, as uncertain market conditions did not offer sufficient probability of profits in the foreseeable future. This year, however, the Group has recognised an additional deferred tax charge of £0.2 million on certain profits projected in future accounting periods which can be forecast with a high enough degree of certainty. The Group's deferred tax treatment falls within the criteria of IAS 12.

In conjunction with our overall business strategy, the Group pursues a tax strategy that is principled, transparent and sustainable in the long-term. The Group has established ethics regarding its tax policy which have been ratified by the Board; these include the following key points:

- A commitment to ensure full compliance with all statutory obligations including full disclosure to all relevant tax authorities
- Any tax planning strategy entered into is done after full consideration of the risks and those findings are recorded in any relevant structuring document
- The maintenance of good relationships with tax authorities and the interaction between tax planning and the Group's wider corporate reputation
- Management of tax affairs in a manner that seeks to maximise shareholder value whilst operating within the parameters of existing tax legislation.

The Group has certain operations in jurisdictions that have been dictated to us by our majority joint venture partners and under most circumstances the Group does not enjoy any fiscal advantage of being in these jurisdictions. The Group has also recently undertaken a Transfer Pricing review to ensure that all cross-border services provided are conducted at the appropriate arm's length market rate.

The suitability of our tax strategy is kept under constant review to ensure compliance with the fiscal needs of the Group and constant evolution of tax legislation.

Dividends

The Board will recommend to shareholders at the Annual General Meeting on 16th July 2014 a final dividend of 3.2 pence per share (28th February 2013: 2.4 pence per share) to be paid on 22nd August 2014 to shareholders on the register on 25th July 2014. This final dividend, amounting to £3.9 million, has not been included as a liability at 28th February 2014, in accordance with IFRS. The total dividend for the year will be 5.6 pence per share (28th February 2013: 4.8 pence per share).

Earnings per share

Basic and diluted earnings per share for the year represented earnings of 14.9 pence (28th February 2013: 2.0 pence). After removing the unrealised revaluation of the investment portfolio, the gain on the disposal of trading properties and impairment of development and trading properties, the EPRA adjusted earnings per share was 7.8 pence (28th February 2013: 10.5 pence).

Performance measures

Key performance indicators are set out below:

		28th February 2014	28th February 2013
Net asset value movement	%	**4.4**	(2.1)
Gearing	%	**48.0**	47.9
Loan to value gearing	%	**44.7**	38.0
Development and trading gains	£m	**27.0**	28.1
Total shareholder return	%	**52.3**	(4.0)

Five year summary

		2014	2013	2012†	2010	2009*
Revenue	£m	**79.3**	99.7	80.0	44.4	35.1
Profit/(loss) before taxation	£m	**19.5**	0.8	(10.2)	2.6	(11.4)
Net assets	£m	**320.3**	306.7	313.2	333.1	244.0
Earnings/(loss) per share	Pence	**14.9**	2.0	(10.3)	1.7	*(16.8)
EPRA earnings/(loss) per share	Pence	**7.8**	10.5	(8.2)	(11.8)	*(20.3)
Net assets per share	Pence	**262**	251	256	272	297
EPRA net assets per share	Pence	**269**	260	262	276	301

* Restated following Placing and Rights Issue.

† 14-month period.

Our approach

We recognise the significant impact that our large-scale property developments can have on a diverse range of groups.

Our stakeholders include our employees, shareholders and co-investors and also our suppliers, our tenants and their employees, their customers and the communities surrounding our properties.

Our approach

We work constructively within the strong framework of regulation which exists to balance the interests of all these groups. However, there are many situations in which exceeding minimum standards creates economic, social and environmental benefits, contributing to the sustainable success of our Company, and the enhancement of its reputation.

We continue to work to the same high standards that we have reached to date, and we will continue to prioritise those activities with which we believe we can make a positive impact for our stakeholders.

Our business strategy continues to evolve and with it the diversity of our portfolio. Each segment of our portfolio presents different challenges, and provides specific opportunities. We set out, below, our priorities in each segment.

Our governance system

At the start of each financial year the Executive Directors set objectives considering the material issues relating to each of our stakeholder groups, including our corporate social and environmental responsibilities.

Our Head of Delivery, Duncan Trench, sits on both the Investment Board and Project Board and is responsible for co-ordinating CSR activity and reporting consolidated performance information to the Executive Directors. Consolidated health and safety data is reported regularly to the Board of Directors.

Our overall objectives

In all our activities we strive to:

- Achieve and maintain good practice in all aspects of sustainable and responsible development.
- Improve the measurement of what we do and see continuous improvement in our performance.

Respect for people:

- Maintain a collegiate atmosphere and safe working environment for our employees and encourage and facilitate employee development.
- Engage our major suppliers in our sustainable development programmes, share our objectives with them and ensure compliance with health and safety best practice on all of our sites.
- Create diverse and balanced developments that reflect the socio-economic diversity of the local communities and contribute to their enrichment through support for youth programmes, skills development, arts projects and environmental projects.

Details of the Group's policy on gender diversity can be found in the Directors' Report on page 57.

Respect for the environment:

- Minimise energy and water consumption through considered design, construction site best practice and clear advice to occupants.
- Minimise waste from all our operations, measuring output and setting targets early in the construction process.
- Appoint suitably qualified consultants to advise on all aspects of environmental protection and options for sustainable development.

Details of the Group's greenhouse gas emissions are included in the Directors' Report on page 58.

Respect for our industry:

- Contribute to the better working of our industry by participating in debate and publishing research.

Report on progress and highlights of 2013/14

Our people

Our corporate operations employed an average of 79 people during the year ended 28th February 2014, in a single office in Central London, and also within our subsidiary companies including Henry Davidson Developments and Executive Communication Centre.

We actively encourage and support our employees with personal and career development. This year we have financially supported six employees in their continued professional development and four employees in their study of accountancy, corporate governance and real estate. One employee achieved their RICS qualification and one gained their MSc degree in Real Estate, both funded by the Group.

Performance highlights – year ended 28th February 2014

- Excellent assessment of cradle-to-grave carbon emissions at 10 Hammersmith Grove
- Published the second influential report on the London property market, with Fathom Consulting
- Driven the value and consistency of CDM reporting and analysis
- Recognised for excellent performance under the Considerate Contractors scheme
- Sponsored Rational House, exploring solutions to London's housing scarcity
- Successful post-completion review at 10 Hammersmith Grove, with local stakeholders
- Energy Performance Certificates in place for all our investment properties and targets set

Report on progress and highlights for the year ended 28th February 2014

Supporting charities

We are active supporters of charitable activity, and not just with money. Three of our Executive Directors act as trustees of charities and we have committed internal resource to assist with their initiatives.

We contribute to a wide range of charities and social enterprises. We particularly focus on those serving the needs of the communities in which we work. We continue to support the Ascension Eagles and St Andrew's Boys Club, our two main chosen charities, believing they benefit from our long-term commitment.

During the year we also directly supported five local and national charities, and several more through sponsorship of our employees' efforts in events such as the Marathon des Sable and the Cathedral to Coast cycle challenge.

Further financial support has been given to the Canal and River Trust and Hammersmith's Lyric Theatre. We also supported a number of fund-raising activities associated with our developments at Hammersmith, Hale Barns and Shepherd's Bush.

Construction health and safety

We monitor all our projects for Construction and Design Management (CDM) regulation compliance, and consistent reporting is the basis of useful trend analysis.

We contract independent CDM consultants for monitoring and management on all our sites. Our briefing documents are standardised and where we are the principal financial partners for project construction, our JV partners are encouraged to use the same procedures reporting to us on a regular basis.

All reportable incidents are reported to the Board of Directors. In the year ended 28th February 2014 there was one reportable incident. A worker was scalded while repairing an air conditioning unit. He was not using the protective clothing provided to him. The matter was reported to the HSE and, after reviewing maintenance procedures, no further action was required.

Public consideration

All our contractors report on compliance with environmental legislation and all new developments will be registered with the Considerate Contractors scheme where available to do so.

We are in a phase in which we are involved in a wide range of planning applications. Wherever possible we go beyond the legislative requirements in our public consultations. During the year we carried out engaging public consultations at Shepherd's Bush, South Woodham Ferrers, 399 Edgware Road, Abbey Wood and Hale Barns.

We continue to be active as a founder member of 'Proud to be Slough', a campaign aiming to improve perceptions of Slough to the benefit of the community.

Supporting our industry

We believe the property development industry must maintain the highest standards of professionalism and transparency. We contribute actively to industry-wide debate and learning, hosting and participating in many debates and workshops.

In July 2013, we published a research report '*Prime Central London – One year on, and even higher*'. This was the second report based on our influential research into that property market in collaboration with Fathom Consulting.

We also further sponsored the research work of Rational House exploring property solutions in London and have chaired debates at conferences including the British Council of Office (BCO) in Manchester and events at MIPIM and to support the West London Business forum.

We have supported the BCO's research into the Telecom, Media and Technology (TMT) sectors and future office space and aim to continue to publish research for the benefit of our industry as a whole.

Protecting the environment

Our principal impacts on the wider environment are in the form of CO_2 emissions from construction and use of our properties, and the management of waste from construction. All our contractors are required to report on compliance with environmental legislation.

We continue to work with architects and contractors to realise best practice in design and construction. We are committed to delivering the most energy efficient and sustainable buildings possible within the constraints established by the brief.

Major developments

We manage the design and construction of these projects from planning application to delivery. At the outset, and throughout the life of each project, we consider the issues of sustainability, from carbon footprint to sustainable transport and community socio-economic development. By doing these things well we will continue to create premium products for responsible owners.

When planning and bidding for development and investment opportunities, the briefing material we give to our consultants outlines our CSR policies and detailed aspirations. Through early consideration in the design process, safety, sustainability, environmental and social considerations become embedded in the project.

Progress at 10 Hammersmith Grove, and 399 Edgware Road confirms our ambition to deliver BREEAM 'Excellent' schemes while also minimising construction waste and CO_2 emissions from the design and construction process.

During the year, we commissioned a comprehensive lifecycle study of the carbon footprint of 10 Hammersmith Grove over a 60-year lifecycle; from raw materials to end of life recycling. The principle aim was to quantify the total carbon achieved relative to the RICS embodied carbon benchmark for office buildings, and also relative to an equivalent recent Development Securities building at 2 Kingdom Street, PaddingtonCentral, completed in 2012.

The conclusion of this study was that the design and construction of 10 Hammersmith Grove had resulted in six per cent less embedded carbon than the RICS benchmark and 18 per cent less operational carbon. This significant reduction in operational carbon results principally from the design of the building and its triple glazing, which allows maximum use of natural light.

A reduction in total carbon footprint of six per cent was also found versus 2 Kingdom Street, indicating that our design and construction methods continue to develop in the right direction. Here, for example, it was found that we had achieved a 36 per cent reduction in emissions from onsite activities during construction due to the use of prefabricated components, and the fact that 99 per cent of the waste generated on site was diverted from landfill.

This study gives us valuable insights into how we can further improve the efficiency of future buildings. The key points we intend to pursue in future design processes are to:

- Explore options for further lifecycle carbon reduction through the recycling of glass, steel and concrete, the principal construction materials, particularly in the design and construction of structural frames
- Carry out similar analysis on our future projects, aiming at continuously developing our knowledge and understanding
- Further explore the use of prefabrication to reduce on site emissions
- Brief designers to use standard dimensions where possible to reduce the bespoke elements of construction
- Continue to focus on water and waste efficiency through design throughout construction phase
- Ensure that 'sustainable and renewable' factors are thoroughly explored throughout the design process, and that cost/benefit analyses are rigorously performed
- Continue to hold post-completion reviews with local stakeholders at all our major developments to obtain feedback within a year of completion.

In these ways we will continue to provide best advice and use best practice within the constraints of every client-centred design brief.

Investment portfolio

During 2012, we completed a comprehensive survey of key properties in our investment portfolio. Since then our focus has been on developing and communicating policies for the long-term sustainability of our estate, raising awareness among our site management and tenants, monitoring energy use and reducing and recycling waste.

We have appointed a single lead managing agent for all our principal sites, enabling us to introduce estate-wide minimum standards and definitions of best practice as well as to consistently communicate our CSR policy to site managers and tenants.

We have made progress in the year on energy use in our properties. Every property now has an Energy Performance Certificate. In terms of reducing energy use, the focus has initially been on landlord common areas. Many of our sites have specific actions planned to reduce energy consumption, with several sites having already installed new, low-energy lighting systems. Energy contracts have been centralised and all the energy we are responsible for comes from renewable sources. As refurbishment and development work is undertaken, reducing energy consumption will be a significant consideration with, for example, planned insulation upgrades.

A single waste contractor is now used throughout our portfolio, allowing us to standardise and improve the quality of recycling as well as monitoring and reporting.

For each site in our first survey, we have a detailed set of actions covering energy, waste, water and transport as well as tenant and public engagement. We expect to see many more initiatives completed in the near future.

The survey has given us very valuable insights into the management of those investment properties it covered and, as a result, we aim to complete a similar survey of all our remaining sites in the next twelve months.

Development and trading portfolio

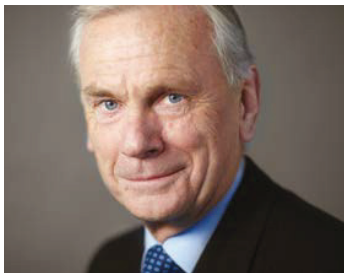
A significant number of these properties are owned and developed in conjunction with third party partners. Our focus is therefore to ensure that all our JV partners are aware of our CSR policies and commitment to responsible development.

This not only helps the spread of good practice across our industry but it also provides an important aspect of risk management for our Company.

We encourage our partners to align their reporting to ours. We routinely request that our partners appoint our preferred CDM consultants and that their CDM reporting is aligned with ours. In this way we will be able to readily consolidate key information, and analyse trends, regarding CDM compliance and environmental issues.

Some of our partners are advanced in aspects of CSR and we continue to learn from them to improve our own performance.

Board of Directors



David Jenkins
Non-executive Chairman

Joined the Board in February 2007 and appointed Chairman on 15th May 2007. A Fellow of the Institute of Chartered Accountants in England and Wales. Previously a partner in Deloitte LLP, London, and was Managing Partner of their Real Estate Practice until his retirement in May 2004. Senior Independent Director of MITIE Group PLC and Non-executive Director of Renewable Energy Systems Holdings Ltd. He is also advisor to several companies.

Michael Marx
Chief Executive

Appointed to the Board in September 1994. A Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the UK Listing Authority Advisory Committee 2004 to 2007. Non-executive Chairman of Nationwide Accident Repair Services PLC.

Marcus Shepherd
Finance Director

Appointed to the Board in February 2013. A member of the Institute of Chartered Accountants in England and Wales. Previously Finance Director (Global Real Estate) at Aviva Investors, Chief Financial Officer (Europe) for Valad Property Group and Group Finance Director of Teesland PLC.

Julian Barwick
Executive Director

Appointed to the Board in May 1998. A Fellow of the Royal Institution of Chartered Surveyors. Formerly property advisor to the Bedford Estate from 1997 to 2003, Chairman of the Paddington Regeneration Partnership from 2000 to 2002 and Board Member of the British Council for Offices from 1996 to 2006. Appointed to the Board of London & Continental Railways Ltd in 2005.

Matthew Weiner
Executive Director

Appointed to the Board in March 2004. A Member of the Royal Institution of Chartered Surveyors. Joined Development Securities PLC in November 2000 as Director of Investments.

Sarah Bates
Non-executive Director

Appointed to the Board in January 2010. Currently Chairman of St James's Place PLC and JP Morgan American Investment Trust plc, a Non-executive Director of Polar Capital Technology Trust plc, Witan Investment Trust plc and Worldwide Healthcare Trust Plc. Director and past Chair of the Association of Investment Companies. Sits on or is advisor to various pension fund and charitable investment committees including that of the Universities Superannuation Scheme.

Nicholas Thomlinson
Non-executive Director

Appointed to the Board in January 2012. A Member of the Royal Institution of Chartered Surveyors. Former Senior Partner and Chairman of the Knight Frank Group.

Directors' Report

The Directors present their report and the audited financial statements for the financial year ended 28th February 2014.

This report contains forward-looking statements. These statements are not guarantees of future performance, rather they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results to differ from any future results or developments, expressed or implied from the forward-looking statements.

Principal activities

The principal activity of the Company is that of a holding company. The principal activities of the Group during the year were property investment and development, investment and trading.

Incorporation

Development Securities PLC is incorporated in Great Britain and registered in England and Wales, registration number 1528784.

Business review and future developments

A review of the Group's operations, the current state of the business and future prospects, including financial and non-financial key performance indicators and principal risks and uncertainties, is contained within the Strategic Report, and should be read in conjunction with this report. Further details of the financial and non-financial key performance indicators, the principal risks, and the information which comprises the business review as required by Section 417(1) of the Companies Act 2006 may be found in the the Strategic Report on pages 8 to 51.

Results and dividends

The profit for the financial year attributable to shareholders amounted to £18,236,000 (28th February 2013: £2,421,000). An interim Ordinary dividend of £2,934,000 representing 2.4 pence per Ordinary share was paid on 29th November 2013 (30th November 2012: £2,934,000 representing 2.4 pence per Ordinary share). The Board recommends a final Ordinary dividend of 3.2 pence per Ordinary share amounting to £3,912,000 payable on 22nd August 2014 to shareholders on the register at 25th July 2014 (25th October 2013: £2,934,000 representing 2.4 pence per Ordinary share). Subject to shareholder approval, this makes a total dividend payment of 5.6 pence per Ordinary share for the financial year, increased from the previous year.

Group structure

Details of the Group's principal subsidiary undertakings are disclosed on page 110.

Share capital

The Company's issued share capital at 28th February 2014 consisted of 122,229,107 Ordinary shares of 50 pence each and 123,397 shares held in treasury which do not have a dividend or voting entitlement. On 21st March 2014, the Company transferred 4,605 shares from treasury in connection with the exercise of options under the Company's Save As You Earn Scheme. Following this transfer of shares out of treasury, the Company holds a total of 118,792 of its Ordinary shares in treasury. The total number of Ordinary shares in issue (excluding shares held in treasury) is 122,233,712. The Company's share capital represents a single class of shares, with all shares ranking equally and fully paid. Details of the share capital are set out in note 20 on pages 125 and 126.

The rights and obligations attaching to the shares are specified in the Company's Articles of Association, or alternatively may be governed by statute. There are no restrictions on the transfer of shares in the Company other than those specified by law or regulation. There are no restrictions on voting rights other than as specified by the Articles of Association.

Three resolutions relating to share capital will be proposed as Special Business at the forthcoming Annual General Meeting. The full text of the resolutions can be found in the enclosed Notice of Annual General Meeting.

Change of control

The Company has entered into significant agreements with its commercial partners, which contain change of control clauses and which may give rise to termination or renegotiation in that event. If enforced, the Company may be deprived of potential future earning capacity from such schemes. The Company is party to a number of committed bank facilities, which, upon a change of control, are terminable at the banks' discretion. In addition, under such circumstances, the Company's share option schemes would normally vest or become exercisable subject to the satisfaction of the performance conditions.

Corporate Governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 59 to 65 of the financial statements. The Corporate Governance Report forms part of this Report and is incorporated into it by cross-reference.

Share option schemes

There were no grants under the Save As You Earn Option Plan 2005. Further details of the share option schemes are contained on pages 125 to 126 and in the Remuneration Report on pages 66 to 83.

Directors

The Directors serving during the year and up to the date of signing the Group financial statements were as follows:

D S Jenkins
M H Marx
M O Shepherd
C J Barwick
M S Weiner
S C Bates
N H Thomlinson

Brief biographical details are shown on page 52.

As required by the Company's Articles of Association, all Directors will be retiring at the 2014 Annual General Meeting and, being eligible, will offer themselves for re-election. The Directors are voluntarily offering themselves for re-election as a matter of best practice in accordance with the UK Corporate Governance Code. Following the performance evaluation of the Board, all Directors were judged to have made a significant contribution to the Board's deliberations, reflecting their commitment to the role. The rules that the Company has governing the appointment and replacement of Directors are contained in its Articles of Association.

Conflicts of interest

Under the Companies Act 2006, a Director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The Directors are required to submit any potential or actual conflicts of interest they may have with the Company to the Board for approval. No conflicts of this sort have arisen during the year under review.

Directors' service contracts and interests in the Company's shares

The details of Directors' service contracts and the interests in the shares of the Company of the Directors who were in office as at 28th February 2014 are disclosed in the Remuneration Report on pages 66 to 83.

None of the Directors had any material interest in any contract that was significant in relation to the Group's business at any time during the year, other than a service contract, and as disclosed in the Remuneration Report.

Directors' and officers' liability insurance

Article 153 of the Company's Articles of Association provides, among other things, that, insofar as permitted by law, every Director shall be indemnified by the Company against all costs, charges, expenses, losses or liabilities incurred in the execution and discharge of the Directors' duties, power or office. The Company maintains, at its expense, a Directors' and Officers' liability insurance policy at an adequate level which is reviewed annually. This insurance policy does not provide cover where a Director or Officer is proved to have acted fraudulently or dishonestly.

This third party indemnity insurance was in force during the financial year and also at the date of approval of the financial statements.

Articles of Association

The Articles of Association may be amended by a special resolution of the shareholders.

Annual General Meeting

The Annual General Meeting will be held on 16th July 2014 at 12.00 noon on the 14th Floor, Portland House, Bressenden Place, London SW1E 5DS.

At the Annual General Meeting, the following resolutions will be proposed:

Ordinary Resolution 1 – Report and Accounts

The Directors will present the financial statements and Reports of the Directors and Auditors for the financial year ended 28th February 2014.

Ordinary Resolutions 2 and 3 – To approve the Directors' Remuneration Report

In accordance with the new directors' remuneration reporting regime as set out in Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), the Company's 2014 Directors' Remuneration Report comprises the Remuneration Committee Chairman's Annual Statement, the Annual Report on Remuneration (the Annual Remuneration Report) and the Directors' Remuneration Policy (the Policy).

Resolution 2 seeks shareholder approval for the Annual Remuneration Report. This is set out on pages 76 to 83 of the Directors' Report and financial statements and sets out details on how our Directors were paid in the financial year ended 28th February 2014 and how their pay will be structured in the financial year ended 28th February 2015. The Annual Remuneration Report will be prepared on an annual basis and is subject to an advisory shareholder vote.

Resolution 3 seeks shareholder approval for the Policy as set out on pages 67 to 75, this is a binding vote. The Policy, if approved, will take effect from 1st March 2015 and will apply until replaced by a new or amended Policy. The Policy will be subject to a shareholder vote at least once every three years. Once the Policy is effective, the Company will not be able to make remuneration or loss of office payments to a current or past Director, unless the payment is consistent with the approved Policy or has been otherwise approved by shareholders.

Ordinary Resolutions 4 to 10 – Re-election of Directors

The Directors seek to maintain the highest standards of corporate governance and, in accordance with the recommendations of the UK Corporate Governance Code, all of the Directors will voluntarily retire and those wishing to serve again shall submit themselves for re-election by the shareholders at the Annual General Meeting. The Chairman is satisfied that, following individual formal performance evaluations, the performance of the Directors standing for re-election continues to be effective and demonstrates commitment to the role. The Nomination Committee has considered each of the Non-executive Directors seeking re-election and concluded that their collective background, skills, experience, independence and knowledge of the Company enables the Board and Committees to discharge their respective duties and responsibilities effectively. The workings of the Board and Committees are more particularly detailed in the Corporate Governance Report on pages 59 to 65. Biographical details of all the Directors appear on page 52 of the Directors' Report and financial statements.

Ordinary Resolution 11 – Declaration of a dividend

A final dividend can only be paid after the shareholders at a general meeting have approved it. A final dividend of 3.2 pence per Ordinary share is recommended by the Directors for payment to shareholders who are on the register at the close of business on 25th July 2014.

Ordinary Resolutions 12 and 13 – Re-appointment and remuneration of auditor

Resolutions 12 and 13 propose the re-appointment of PricewaterhouseCoopers LLP as Auditor of the Company and authorise the Directors to set their remuneration.

Special Resolution 14 – Authority to purchase own shares

The Company is seeking authority to purchase up to 10.0 per cent of the Company's issued ordinary share capital at, or between, the minimum and maximum prices specified in this Resolution. This power would only be used after careful consideration by the Directors, having taken into account market conditions prevailing at that time, the investment needs of the Company, its opportunity for expansion and its overall financial position. The Directors have no present intention of making any market purchases of the Company's shares, but if they believed such action to be in the best interests of shareholders and would enhance net assets or earnings per share, they would consider exercising their authority. As at 29th April 2014 (being the latest practicable date prior to publication of the Notice of Annual General Meeting), the Company has an unexpired authority to repurchase 12,222,910 Ordinary shares of which 12,222,910 Ordinary shares remain outstanding.

As at 29th April 2014 (being the latest practicable date prior to publication of the Notice of the Annual General Meeting), the total number of options to subscribe for shares in the capital of the Company was 152,590 (approximately 0.12 per cent of the Company's issued share capital and approximately 0.14 per cent of the Company's issued share capital if the full authority proposed by Resolution 14 was used).

Under the Companies Act 2006, the Company is allowed to hold its own shares in treasury following a buyback, instead of cancelling them. Such shares may be resold for cash or used for the purpose of employee share schemes, but all rights attaching to them, including voting rights and any right to receive dividends, are suspended whilst they are held in treasury. Accordingly, if the Directors exercise the authority conferred by Resolution 14, the Company will have the option of holding these shares in treasury, rather than cancelling them. The authority sought at the Annual General Meeting will expire at the conclusion of the next Annual General Meeting of the Company or on 1st September 2015 (being the latest date by which the Company must hold an Annual General Meeting in 2015). The Company currently holds 118,792 shares in treasury.

Ordinary Resolution 15 – Allotment of shares

The Directors may only allot Ordinary shares or grant rights over Ordinary shares if authorised to do so by shareholders. The authority granted to the Directors at the Company's previous Annual General Meeting in 2013 to allot shares or grant rights to subscribe for, or convert any securities into shares is due to expire at the conclusion of this year's Annual General Meeting. Accordingly, the Directors will be seeking new authority under Section 551 of the Companies Act 2006 to allot shares (including treasury shares) or grant rights to subscribe for, or to convert any security into shares, which will expire at the conclusion of the next Annual General Meeting of the Company or on 1st September 2015 (being the latest date by which the Company must hold an Annual General Meeting in 2015).

If passed, paragraph (a) of Resolution 15 would give the Directors authority to allot Ordinary shares or grant rights to subscribe for, or convert any security into, Ordinary shares up to an aggregate nominal amount of £20,372,285 representing approximately one third (33.33 per cent) of the Company's issued ordinary share capital (excluding shares held in treasury) and calculated as at 29th April 2014 (being the last practicable date prior to publication of the Notice of the Annual General Meeting). In accordance with the latest institutional guidelines issued by the Association of British Insurers (ABI), paragraph (b) of Resolution 15, if passed, would give the Directors authority to allot further shares in connection with a fully pre-emptive offer by way of a rights issue to shareholders up to a further aggregate nominal amount of £20,372,285, representing approximately one third (33.33 per cent) of the Company's issued ordinary share capital (excluding shares held in treasury) and calculated as at 29th April 2014 (being the last practicable date prior to publication of the Notice of the Annual General Meeting). As at 29th April 2014 (being the last practicable date prior to publication of the Notice of the Annual General Meeting), the Company held 118,792 shares in treasury which represent approximately 0.10 per cent of the total ordinary share capital of the Company in issue (excluding shares held in treasury).

The Directors are currently giving consideration to the possible exercise of this authority. The Directors consider it desirable to have the maximum flexibility permitted by corporate governance guidelines to respond to market developments and to enable allotments to take place to finance business opportunities as they arise. Accordingly, the Directors intend to renew this authority annually.

Special Resolution 16 – Disapplication of pre-emption rights

Under Section 561(1) of the Companies Act 2006, if the Directors wish to allot any shares and other relevant securities, grant rights over shares, or sell treasury shares for cash (other than in connection with an employee share scheme), they must in the first instance offer them to existing shareholders in proportion to their holdings. The Directors seek authority to renew the disapplication of shareholders' pre-emptive rights. The purpose of paragraph (i) of Resolution 16 is to authorise the Directors to allot any shares pursuant to the authority given by paragraph (a) of Resolution 15 for cash either (a) in connection with a pre-emptive offer or rights issue or (b) otherwise up to an aggregate nominal value of £3,058,812 (being equivalent to 5.0 per cent of the total issued ordinary share capital of the Company as at 29th April 2014 (being the latest practicable date prior to publication of the Notice of the Annual General Meeting)) and which includes the sale on a non pre-emptive basis of any shares held in treasury, in each case without the shares first being offered to existing members in proportion to their existing holdings.

The purpose of paragraph (ii) of Resolution 16 is to authorise the Directors to allot any shares pursuant to the authority given by paragraph (b) of Resolution 15 for cash in connection with a rights issue without the shares first being offered to existing members in proportion to their existing holdings. This is in line with corporate governance guidelines issued by the Pre-emption Group. The Board considers the authority sought to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a pre-emptive offer or rights issue without the need to comply with the strict requirements of the statutory pre-emption provisions. The Board intends to adhere to the provisions in the Pre-emption Group's Statement of Principles not to allot shares on a non pre-emptive basis (other than pursuant to a rights issue or pre-emptive offer) in excess of an amount equal to 7.5 per cent of the total issued ordinary share capital of the Company within a rolling three-year period without prior consultation with shareholders.

Special Resolution 17 – Notice period for general meetings

The Companies (Shareholders' Rights) Regulations 2009 increased the notice period for general meetings of a company to 21 clear days unless shareholders approve a shorter period, which cannot be less than 14 clear days.

At the Annual General Meeting of the Company held on 28th August 2013, shareholders authorised the calling of general meetings, other than an annual general meeting, on not less than 14 clear days' notice. Resolution 17 seeks the approval of shareholders to renew the authority to be able to call general meetings (other than an annual general meeting) on 14 clear days' notice.

The shorter notice period would not be used as a matter of routine for general meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole. If the proposals at a given meeting are not time sensitive, the Company will not normally use the shorter notice period. The approval will be effective until the Company's next annual general meeting, when it is expected that a similar resolution will be proposed. It should also be noted that the changes to the Companies Act 2006 mean that, in order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting.

Ordinary Resolution 18 – Political donations

Part 14 of the Companies Act 2006, amongst other things, prohibits the Company and its subsidiaries from making political donations or from incurring political expenditure in respect of a political party or other political organisation or an independent election candidate unless authorised by the Company's shareholders. Aggregate donations made by the Group of £5,000 or less in any twelve-month period will not be caught.

Neither the Company nor any of its subsidiaries has any intention of making any political donation or incurring any political expenditure. However, the Companies Act 2006 defines 'political organisation', 'political party', 'political donation' and 'political expenditure' widely. Accordingly, the Company wishes to ensure that neither it nor its subsidiaries inadvertently commits any breaches of the Companies Act 2006 through the undertaking of routine activities, which would not normally be considered to result in the making of political donations and political expenditure being incurred.

The Resolution authorises the Company and its subsidiaries to:

- make political donations to political parties or independent election candidates, not exceeding £10,000 in total;
- make political donations to political organisations, other than political parties, not exceeding £10,000 in total; and
- incur political expenditure, not exceeding £10,000 in total, provided that the aggregate amount of any such donations and expenditure shall not exceed £10,000 during the period beginning with the date of the passing of the Resolution and ending on the date of the Company's next Annual General Meeting.

Ordinary Resolution 19 – New Long-Term Incentive Plan

Following a review of the Company's long-term incentive schemes and discussions with shareholders, the Remuneration Committee has decided to replace those plans with a new share-based long-term incentive plan (the LTIP) which is to be put to shareholders for approval. The key terms of the LTIP are set out in the Appendix to the enclosed Notice of Annual General Meeting.

It is intended that the LTIP will replace the cash-based Development Profit Plan with effect from 1st March 2015 and no payouts will be made to Directors under the latter after 1st March 2018. Subject to shareholder approval, it is intended that the first grants will be made under the LTIP after 1st March 2015. Details of how the LTIP will be operated for Directors are set out in the Directors' Remuneration Policy in the Annual Report.

Ordinary Resolution 20 – Renewal of the SAYE Plan

The Save As You Earn Option Plan 2005 (the SAYE Plan) is an all employee share option plan which was approved by shareholders in 2005. Since then it has been a successful and popular part of the Company's remuneration arrangements. It expires in 2015 and so shareholder approval is being sought to renew it for a further ten years from the date of the 2014 Annual General Meeting. The key terms of the SAYE Plan are set out in the Appendix to the enclosed Notice of Annual General Meeting.

Full details of all the resolutions can be found in the enclosed Notice of Annual General Meeting, which is also displayed on the Company's website at www.developmentsecurities.com.

The Directors believe that all the proposals to be considered at the Annual General Meeting are in the best interests of both the Company and its shareholders. The Directors unanimously recommend that you vote in favour of the proposed resolutions as they intend to do in respect of their own holdings.

Financial risk management

Disclosures in respect of financial risk management objectives and exposures are set out in note 18(d) to the financial statements on pages 121 to 123.

Financial instruments

Details of the financial instruments used by the Group and the Company are set out in note 18 to the accounts on pages 116 to 123.

Charitable and political donations

Charitable donations during the year were £38,210 (28th February 2013: £76,075). The Group supported a number of charities serving the community in which the Group operates. These included national and local charitable organisations and covered a wide range of causes including education, public services, community support schemes and events organised on behalf of major charities.

No political donations were made during the year (28th February 2013: £9,500).

Other substantial interests

At the date of this Report, the Directors have been notified of the interests in 3.0 per cent or more of the Company's issued share capital shown in the following table. These interests were notified to the Company pursuant to Disclosure and Transparency Rule 5.

	Shares	%
BlackRock, Inc.	15,890,605	13.00
FIL Limited	14,883,732	12.16
Aberdeen Asset Management plc	13,239,811	10.82
Quantum Partners LP	9,834,530	8.04
F&C Asset Management plc	7,145,046	5.84
Ameriprise Financial, Inc.	5,722,553	4.68

Human rights

This Report does not contain information about any policies of the Company in relation to human rights issues since it is not considered necessary for an understanding of the development, performance or position of the Group's business activity due to the existing regulatory requirements in the UK. The Company does have policies which adhere to internationally proclaimed human rights principles, some of which are summarised below.

In the year to 28th February 2014 the Group is not aware of any incident in which the Group's activities have resulted in an abuse of human rights.

Employees

The Board acknowledges the importance of diversity in all forms and is committed to the principle of equal opportunity in employment. Current and potential employees are offered the same opportunities regardless of gender, race, colour, religion, nationality, ethnic origin, age, sexual orientation, marital status or disability. It is the Group's policy to apply best practice in the employment of the disabled, including, wherever possible, the retraining and retention of staff who become disabled during their employment.

As at 28th February 2014, gender diversity within the Company was as follows:

At Board level	Number	%
Women holding directorships	1	14.29
Women Chairs (Board & Committee)	1	33.33
Women Executive Directors	0	0.00
Women Non-executive Directors	1	33.33

Below Board level	Number	%
Women in senior executive positions	4	26.67
Women in the Group	50	59.52

Employee engagement

The Group recognises the importance of the involvement of its employees, keeping them regularly informed on matters affecting them through various media, including display of notices in communal areas, memoranda and emails, presentations, meetings and the Company's website.

It is the Directors' belief that the employees are instrumental in the continued improvement in the Group's performance and they are committed to encouraging and facilitating the continuing professional development of employees to ensure they are equipped to perform their particular roles. Training and development is provided and available to all employees. The Company operates a number of share option schemes which seek to incentivise and reward employees for the sustainable creation of shareholder value over the longer term.

Independent auditors

Our auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. The Board, on the advice of the Audit Committee, recommends their re-appointment, and a resolution that they be re-appointed will be proposed at the forthcoming Annual General Meeting.

Post balance sheet events

Details of events which have occurred since 28th February 2014 and up to the date of this report are disclosed in note 28 to the financial statements on page 130.

Greenhouse gas emissions

The Company has reported greenhouse gas (GHG) emissions in line with the requirements set out in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The Company's GHG emissions are reported based on an operational control boundary for sources of emissions falling within the Group's Consolidated financial statements. The reporting period for GHG emissions is 1st March 2013 to 28th February 2014, which aligns with the financial reporting year covered by the Directors' Report.

The Company has used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), and Defra GHG Conversion Factors for Company Reporting 2014 for the financial year ending 28th February 2014 to calculate its GHG emissions.

Greenhouse Gas (GHG) Emissions Scope (tCO_2e)	Reporting year ended 28th February 2014
Scope 1[a,b,d]	193
Scope 2[c,d]	1,358
Total	1,551

a Scope 1 covers emissions from direct combustion of fuel from operation of properties and Company owned vehicles.
b Fugitive emissions data from use of air conditioning was not available for this report. In the absence of data it was considered that a reasonable estimation could not be calculated based on the limited information available. A process will be established to enable fugitive emissions data to be collated for the financial year ending 28th February 2015.
c Scope 2 covers emissions from electricity purchased for own use. There were no purchases of heat, steam and cooling for own use in the reporting period.
d Where gas/electricity consumption data was not available to cover all months of the reporting period, an estimation of the emissions has been calculated using an average of gas/electricity consumption from the available data of the property concerned. This method of estimation was applied to approximately three quarters of the properties within the reporting scope. For Company owned vehicles, an estimation of the emissions has been calculated from an average mileage level across the vehicle fleet. This method of estimation was applied to a single vehicle within the reporting scope.

An intensity ratio of GHG emissions per square foot of investment property managed and property occupied by the Company is reported.

Intensity Ratio (tCO_2e/sq.ft)	Reporting year ended 28th February 2014
GHG emissions per square foot	0.002

Disclosure of information to auditors

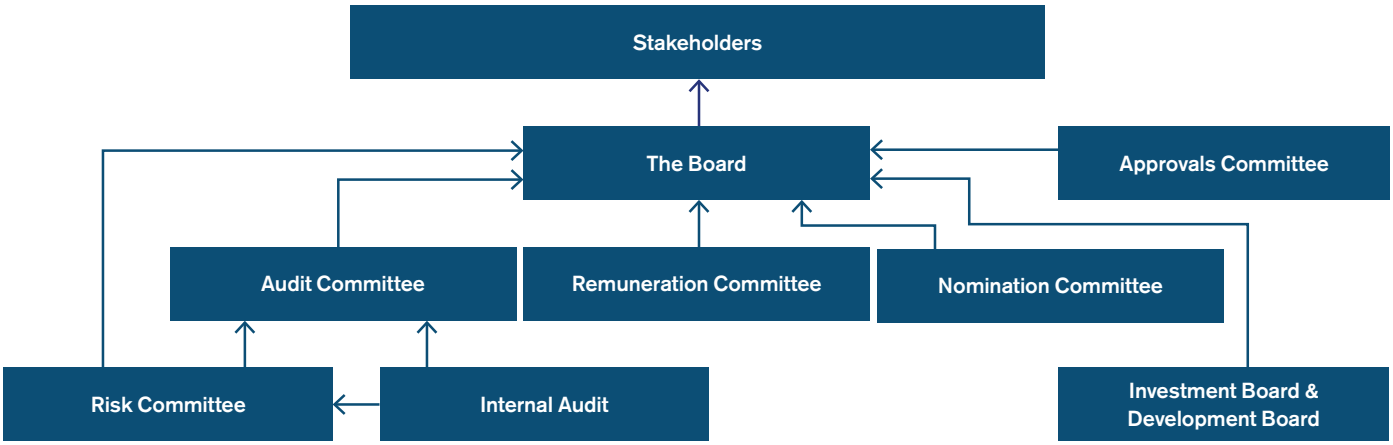
Each of the persons who is a Director at the date of approval of this report confirms that:

1. So far as he/she is aware, there is no relevant audit information of which the Group's auditors are unaware; and
2. He/She has taken all the steps that he/she ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Approved by the Board of Directors
Signed by order of the Board
H M Ratsey
Company Secretary
30th April 2014

Corporate Governance



As Chairman, I am responsible for ensuring that the Board operates efficiently and effectively and that it continues to uphold the high standard of corporate governance that underpins the ethos of the Company. The Board is accountable to the shareholders for good governance and is committed to discharging its duties in their best interests. The principal corporate governance rules which applied to the Company in the year under review were the provisions of the UK Corporate Governance Code (the Code).

The Code contains a number of additional requirements applicable to FTSE 350 companies. At the date of this Report, the Company is not a member of the FTSE 350 indices, however, to further demonstrate its support of the principles of good corporate governance and as we act in shareholders' interests it is right that shareholders have the opportunity to vote on the re-election of every Director on an annual basis. The Board has therefore voluntarily implemented provision B.7.1 of the Code requiring all Directors to seek re-election by shareholders on an annual basis.

The Company has built on the 2013 Report with the aim of providing clear and transparent information to our stakeholders. The Corporate Governance Report on pages 59 to 65 sets out in more detail how the Company has applied the main provisions of the Code.

David Jenkins
Chairman

Development Securities PLC Ordinary shares are listed on the Official List of the UK Listing Authority and, as such, the Company is required to state whether it has complied with the provisions for corporate governance contained within the Code.

The Board confirms that in its view the Company has applied the main principles and has complied with all of the provisions set out in the Code during the financial year under review with the exception of Code provision B.2.1 regarding the composition of the Nomination Committee; further details are provided below. The full Code can be found at www.frc.org.uk.

The interaction between the Board, its Committees and the management of the Company is detailed in the chart above.

Stakeholders

Constructive dialogue has continued to be built up over the year between the Company and its stakeholders and has contributed to investor confidence. The Company's governance principles have been, and will continue to be, kept under review as the Directors believe that a sound corporate governance framework is key to achieving the Company's objectives and discharging its legal and regulatory responsibilities. The Company continues to maximise shareholder value creation whilst at the same time still appropriately managing risks.

Relations with shareholders

Communication with shareholders is a high priority for the Board. The Executive Directors have regular dialogue with institutional shareholders, where a wide range of issues are discussed within the constraints of the information already known to the market. The Company's annual results are also presented to institutional shareholders and analysts.

A copy of the presentation is available on the Company's website, www.developmentsecurities.com.

Copies of key sell-side broker analysts' notes on the Company are circulated to all Directors, as are summaries of non-attributable shareholder comment collated by the Company's joint brokers, financial PR advisors and other corporate advisory providers, which assist the Board in developing their understanding of the views of major shareholders. Additional feedback is regularly sought by financial PR advisors. From time to time the Company arranges for key shareholders to visit a number of development sites, accompanied by Executive Directors. The Board also ensures that investors are provided with regular announcements of the Group's significant transactions to enhance shareholder understanding of the Company's execution of its business strategy.

The Chairman of the Remuneration Committee held discussions with a number of key institutional shareholders in relation to the design of the Long-Term Incentive Plan and consulted with a broader range of shareholders and their representative bodies on the Company's draft remuneration policy, ahead of the presentation at the 2014 Annual General Meeting. This is discussed more fully on pages 66 to 83.

The Chairman, Senior Independent Director and Non-executive Directors are available at any time to meet with shareholders. No shareholder sought a meeting with the Senior Independent Director during the year. The role of Senior Independent Director continues to be performed by S C Bates.

The Company's Annual General Meeting provides an opportunity to respond to shareholders' appropriate questions, and the information necessary for informed participation is made available with as much notice as possible. Directors are introduced to shareholders at the Annual General Meeting, including the identification of Non-executives and Committee Chairs. The Company's website is updated at the same time as the Regulated Information Service, to provide additional information dissemination for shareholders. Shareholders are also invited to free subscription of the Company's e-mail news alert service on the Company's website.

The Board

The Board is collectively responsible for the long term success of the Company and in this capacity has put in place a formal schedule of reserved matters which require its approval that include, but are not limited to:

- strategy;
- executive performance and retention;
- remuneration and succession;
- financial performance;
- the issue of any securities;
- significant borrowing facilities;
- development opportunities;
- dividend policy;
- authorisation of significant transactions over a certain threshold;
- investment portfolio acquisitions and disposals;
- corporate reputation and communication; and
- internal control and risk management and the Board's own effectiveness.

In carrying out its responsibilities, the Board takes into account the size and complexity of the Group, and internal control measures employed, to determine those formal matters reserved to the Board and those delegated to its various Committees or the Executive Directors.

The Board met formally 13 times during the year, six of which were scheduled meetings. The other seven meetings were called at short notice and did not necessarily require full attendance. The Board also met on an ad hoc basis as required by the on-going business of the Company. Where a Director is unable to participate in a meeting either in person or remotely, the Chairman will solicit their views on key items of business ahead of time, in order that these can be presented at the meeting and can influence the debate. The Chairman and the Non-executive Directors met on one occasion during the year with no Executive Directors in attendance.

Board composition

During the financial year under review, the Board consisted of four Executive Directors, a Non-executive Chairman and two independent Non-executive Directors.

The independence of each Non-executive Director has been assessed during the year, in line with the independence criteria contained within provision B.1.1 of the Code. The Company considers all the Non-executive Directors to be independent. The Chairman was considered independent on appointment. The current ratio of Executive and independent Non-executive Directors is permissible for a smaller company under Code provision B.1.2.

S C Bates continued to be the Senior Independent Director for the financial year and is available as a point of contact for shareholders where normal channels of communication have failed, or are not appropriate. The Senior Independent Director acts as a sounding board for the Chairman and serves as an intermediary for other Directors where necessary.

The Non-executive Directors provide a valued role by challenging aspects of executive decisions to produce a considered and independent outcome to Board deliberations, ensuring that no one individual has unfettered decision-making powers. There is a clear division of responsibilities between the Chairman, D S Jenkins, who is responsible for the running of the Board and ensuring its effectiveness, and the Chief Executive, M H Marx, who is responsible for the running of the Company's business. The Chairman and Chief Executive are in regular contact to discuss current material matters. The roles and remit of the Chairman and the Chief Executive are set out in writing and agreed by the Board. There were no significant changes to the Chairman's other commitments.

Biographical information for the Directors in office at the date of this Report is on page 52.

Board effectiveness

As in previous years, the Board has undertaken a formal performance evaluation of the Board as a whole and its Committees, to ensure they continue to be effective, and that individual Directors demonstrate commitment to his or her respective role and has sufficient time to meet his or her commitment to the Company. The Board believes that annual evaluations are helpful and provide a valuable opportunity for continuous improvement. Consideration was given to whether the evaluation should be externally facilitated. The Board maintained that the current arrangements were appropriate, but will keep this area under review. S C Bates chaired a meeting of the Non-executive Directors without the Chairman or Executive Directors present, at which, inter alia, the performance of the Chairman was reviewed on behalf of the Board. The outcome, which was completely satisfactory, was then discussed between the Chairman and Senior Independent Director. The evaluation was conducted by means of a questionnaire, which was co-ordinated and collated by the Company Secretary. The evaluation focused on the Board as a whole, its composition and working, the Committees and individual Directors. The responses were considered by the Chairman (or the Senior Independent Director in relation to the Chairman's performance). Suggestions for improvements were discussed by the Board at a meeting on 26th February 2014 and, where considered relevant, have been implemented. The review helped identify the potential benefit of an additional independent Non-executive Director.

All Directors have access to the services of the Company Secretary and may seek independent professional advice as necessary, at the Company's expense, and subject to the consent of the Chairman. Upon election, or re-election, Non-executives are invited to serve for three-year fixed terms, subject to annual re-election by shareholders. All Non-executive Directors have confirmed that they have sufficient time to dedicate to their role. Their terms of appointment are available from the Company Secretary and details of the Non-executive Directors' letters of appointment are detailed in the Remuneration Report on pages 66 to 83.

Directors undergo a formal induction process on joining the Company and receive appropriate training whilst in office. The Chairman agrees with each Director their training and development needs as and when required.

Board Committees

The Board delegates responsibility for certain matters to Standing Committees, which report back to the Board. These Committees operate within defined terms of reference, as determined by the Board. Details are available upon request from the Company Secretary and are also published on the Company's website, www.developmentsecurities.com. The Company Secretary acts as secretary to each of the Committees.

Board Committee attendance

The following table sets out the attendance of the Directors at the scheduled meetings of the Board and the Audit, Nomination and Remuneration Committees held during the financial year under review.

	Number of meetings			
	Board	Audit Committee	Nomination Committee	Remuneration Committee
D S Jenkins	6	4	–	5
M H Marx	6	–	–	–
M O Shepherd	6	–	–	–
C J Barwick	6	–	–	–
M S Weiner	6	–	–	–
S C Bates	6	4	–	5
N H Thomlinson	6	4	–	5

Report of the Audit Committee

The Audit Committee comprises the following Directors:

Director	
S C Bates	Chair
D S Jenkins	
N H Thomlinson	

Audit Committee composition

The Committee consists of the two independent Non-executive Directors, and the Company's Chairman D S Jenkins, who was considered independent on appointment. The Board has determined that D S Jenkins, as a qualified accountant with considerable experience, has significant 'recent and relevant financial experience' for the purposes of the Code. The Company's Chief Executive, Finance Director and Financial Controller, attend the Audit Committee meetings by invitation. To help the Committee review and challenge the integrity of the Company's financial reporting, representatives from the external and internal auditors attend appropriate parts of the meetings.

The Committee's principal role as set out in its Terms of Reference includes:

- monitoring the integrity of the Company's financial statements;
- reviewing the Company's internal financial controls;
- reviewing the internal control and risk management systems;
- assessing the performance and independence of the external auditors;
- selecting the external auditor and making appropriate recommendations through the Board to permit shareholder consideration at the Annual General Meeting;
- assessing the effectiveness of the external audit process;
- acting as a conduit between the Board and the external and internal auditors;
- reporting to the Board on how it has discharged its responsibilities; and
- monitoring the effectiveness of the Company's internal audit function.

Annual activities of the Audit Committee

The Committee met four times during the year. Three of the scheduled meetings were organised around the Group's shareholder reporting requirements. A meeting was held to agree the terms of engagement, proposed approach and the fees of the annual audit. As is standard each year, two of the meetings take place prior to the issue of the preliminary full-year and interim results in order to consider any significant issues arising from the audit and review processes. The fourth meeting of the Audit Committee was convened specifically to deal with internal control reporting, prior to the Board's review, details of which are set out below.

Significant judgements

Before recommending the half-year and annual financial statements to the Board for approval, the Committee reviewed, amongst other things, the following matters and significant judgements:

Direct property investments, the development and trading portfolios and the valuation of the investment properties. The Committee challenged Executive management at each reporting date in respect of both independent external valuations and Directors' valuations across our entire property portfolio. In addition, the Committee actively challenged the external auditors in respect of the work they have conducted in connection with the internal and external valuations. The Committee was satisfied that there were no significant areas of contention and that the valuation procedures and methodologies used and the valuations themselves were appropriate. In respect of impairment charges recognised, the Committee was satisfied that the written down values reflected the assets' net realisable value.

Indirect property investments, accounting for investments in property secured loans, accounting for joint ventures and associates and recoverability of financial assets. The Committee again challenged Executive management as to the valuation and recoverability of these assets along with the external auditors as to the work they had conducted. As a result, the Committee concluded that the assets were appropriately recognised in the Group's financial statements.

Other reporting matters: Internal controls environment, management oversight of indirect property investments and accounting and regulatory developments.

One of the significant requirements of the Code is that the Board confirms that the Annual Report presents a fair, balanced and understandable assessment of the Company's performance, business model and strategy. The task of assessing this has been delegated to the Audit Committee. With this in mind, the Committee considered management's analysis and were content to confirm and recommend this to the Board. The Board's statement to this effect is set out below in the Statement of Directors' Responsibility on page 65.

The Committee also met without Executive Directors present and S C Bates, as Chair of the Committee, met separately with the auditors, PricewaterhouseCoopers LLP and internal auditors, HW Fisher & Company.

The non-audit services policy as adopted by the Committee during the last financial year was adhered to throughout the year, providing additional control measures around the instruction of the auditors to undertake non-audit work. The policy requires that all non-audit fee work be reported to the Audit Committee and that all non-audit fee work falling into certain categories and above certain thresholds be reported prior to the work being undertaken as detailed below:

- up to £25,000 approval required by the Finance Director, or Chief Executive in his absence;
- in excess of £25,000 and up to £100,000 approval required by the Finance Director and Chair of the Audit Committee; and
- in excess of £100,000 approval required from the full Audit Committee.

In addition, the policy prohibits the auditors from being considered for providing the following services: internal audit; bookkeeping services; and design and implementation of financial information systems.

An analysis of the non-audit fees can be found in note 4 to the financial statements. The Committee scrutinises these payments, but recognises that the nature of the business and complexity of deals dictates that shareholders' interests can often be furthered best by the existing knowledge of auditors in non-audit work. The total value paid during the year for tax advice and planning services amounted to £247,000.

It is within the Committee's remit to recommend the appointment of the external auditors PricewaterhouseCoopers LLP. Additional scrutiny was placed on the independence and objectivity of PricewaterhouseCoopers LLP. In accordance with professional and regulatory standards, the lead audit partner is rotated at least every five years in order to protect audit independence and objectivity. The Audit Committee welcomed Julian Jenkins to the role of lead audit partner for the financial year under review. The Audit Committee was satisfied as to PricewaterhouseCoopers LLP's independence and effectiveness and, following a review of their tenure, quality and fees, accordingly recommended their re-appointment as auditors. This was subsequently ratified by the Board and accordingly the re-appointment of PricewaterhouseCoopers LLP as auditors will be proposed at the forthcoming Annual General Meeting. PricewaterhouseCoopers LLP has been the independent auditor of Development Securities PLC since 2008, which is the last time the audit went out to tender.

Internal control

The Directors acknowledge their responsibility for reviewing the effectiveness of the Group's system of internal control to safeguard shareholders' investments and protect the Company's assets. The Directors acknowledge that they are responsible for determining the nature and extent of the significant risks the Company is willing to take in achieving its strategic objectives. The operational, financial and compliance risk controls are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has conducted a thorough risk assessment of the business, identifying risks, their potential impact, likelihood of occurrence, controls and mitigating actions, together with

early warning systems and further actions which need to be implemented. Detailed below is a description of the Group's internal control and risk management used in the process of preparing the Consolidated financial statements. The key features of the system of internal control include:

- a comprehensive system of financial reporting and business planning with appropriate sensitivity analysis;
- a detailed authorisation process which ensures that no material commitments are entered into without competent and extensive approval;
- a defined schedule of matters reserved for the Board and clear defined roles of the Chairman and Chief Executive;
- an organisational structure with clearly defined levels of authority;
- formal documentation procedures;
- the close involvement of the Executive Directors in all aspects of the day to day operations, including regular meetings with senior management to review all operational aspects of the business and risk management systems;
- a review of the Group strategy and progress on developments at each scheduled Board meeting;
- a comprehensive insurance programme; and
- a formal whistleblowing policy; updated and approved during the year following a change in legislation.

Internal auditors

HW Fisher & Company was appointed as the Company's internal auditors in 2010. The Committee reviews the internal auditors' plan for the year and makes amendments as required. In this capacity, HW Fisher & Company report to the Audit Committee. They attend meetings of the Risk Committee, and from these meetings, and discussions with management, they identify areas of potential weakness or possible improvement in the Group's financial controls. They propose an agenda of work to the Audit Committee, at least annually, and devise and implement appropriate work programmes, independently of management.

During the year, internal audits were carried out on a number of business processes, including:

- Subsidiary governance;
- High level review of the existing bonus schemes;
- Disaster recovery;
- Gifts and entertaining; and
- Treasury payments and cycles.

These reviews and implementations of the recommendations arising from them are overseen by the Audit Committee.

The Board has conducted a review of the effectiveness of the system of internal control for the year ended 28th February 2014 and to the date of this Report, and considers that there is a sound system of internal control which accords with the Turnbull Report, Internal Control: Guidance for Directors on the Combined Code. The Board is satisfied that there is an ongoing process for identifying, evaluating and managing the Group's significant risks including financial, operational and compliance controls and that it is regularly reviewed.

Going concern

The Directors have reviewed the current and projected financial position of the Group, making reasonable assumptions about future trading performance. As part of the review, the Directors considered the Group's cash balances, its debt maturity profile and guarantees and indemnities given. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the forseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

The Company's going concern statement can be found in the Financial Review on pages 42 to 48 and is incorporated here by reference.

Risk Committee

Risk Committee composition

The regular process of identifying, evaluating and managing significant corporate risks has been delegated by the Board to a Risk Committee. The Committee comprises the following Directors and Senior Managers with usually one Non-executive Director in attendance:

M H Marx	Chair
M O Shepherd	
C J Barwick	
M S Weiner	
R C McCubbine	Senior Manager
D A K Trench	Senior Manager
S Whittle	In house Legal Counsel

Role of the Risk Committee

The Committee's principal role as set out in its Terms of Reference includes:

- advising the Board on the Company's risk appetite, tolerance and strategy, taking into account the current and prospective macroeconomic and financial environment;
- reviewing the Company's risk register, including identification of new risks, continuous assessment, and identification of early warning factors and mitigating actions and controls;
- reviewing the effectiveness of the Company's internal financial controls, internal controls and risk management systems; and
- reviewing the Company's procedures for detecting fraud and prevention of bribery.

Annual activities of the Risk Committee

The Committee meets quarterly during the year to ensure that the Group's risk management procedures are comprehensive and appropriate for the current economic climate, regulatory requirements and business operations.

During the year, the Committee reviewed the risk register and agreed that cyber security should have an increased focus. Consequently, the Company employed a cyber security professional to review the current arrangements and implement enhanced controls. The Company is also promoting staff awareness to further assist in mitigating this risk.

The Committee's remit includes all of the Group's subsidiaries and those joint ventures and associates which are administered by the Company. Risks arising from externally managed joint ventures are managed at the boards of the joint venture companies. The minutes of the Committee's deliberations are reviewed by the Board. In addition to the activities of the Risk Committee, a risk evaluation on each significant prospective development, investment or joint venture opportunity is evaluated by the Board, and for development opportunities, the risks are evaluated by an internal independent Project Review Committee. The Executive Directors regularly evaluate the Group's risk-weighted development exposure, which is then considered by the Board. All necessary actions have been or are being taken to remedy any weaknesses acknowledged from the quarterly reviews. No significant failings were identified over the year.

Nomination Committee

Nomination Committee composition

The Nomination Committee comprises the following Directors:

Director	
D S Jenkins	Chair
M H Marx	
S C Bates	

The Company acknowledges that the composition of the Committee does not comply with the requirements of the Code provision B.2.1 as the Committee does not have a majority of independent Non-executive Directors. The Company continues to believe that, particularly in light of the overall size of the Board, the Chairman, Senior Independent Director and Chief Executive are best placed to make decisions concerning nominations to the Board. The Board believes that the Committee has an appropriate composition to discharge its duties effectively. This will continue to be kept under review.

Role of the Nomination Committee

The Committee's principal role as set out in its Terms of Reference includes:

- evaluating the structure, size and composition of the Board as a whole;
- succession planning for Executive Directors, Non-executive Directors and the roles of the Chairman and Chief Executive;
- considering the balance of skills, knowledge, experience, time commitment required and gender on the Board;
- recommending suitable candidates for the role of Senior Independent Director;
- devising descriptions of the role and capabilities required for a particular appointment; and
- providing recommendations on the composition of the Audit and Remuneration Committees, in consultation with the Chairs of those Committees.

The Committee devises and implements succession plans for appointments to the Board, which are fulfilled through an effective search, interview and evaluation process based upon objective criteria.

Annual activities of the Nomination Committee

The Nomination Committee meets as necessary. The Committee met once after the end of the financial year under review and discussed the re-election of all Directors and recommended to the Board that, each Director, being eligible, should opt for annual election. The Board approved this recommendation and each Director shall retire and seek re-election at the forthcoming Annual General Meeting in line with provision B.7.1 of the Code. The Company believes that sufficient biographical details and other relevant information of the Directors seeking annual re-election is provided in this Annual Report to enable shareholders to make an informed decision.

The Committee gave consideration to the important debate of gender diversity and implemented a policy in this area. The policy reflects the commitment to objectively assess, recruit and reward based on merit. The Company's policy on diversity is detailed in the Directors' Report on pages 53 to 58.

The Committee gave consideration to succession planning for Executive Directors. It was also agreed that an additional Non-executive Director would be of potential benefit to the Board.

The Nomination Committee has reviewed the size, structure and composition of the Board and concluded that it is appropriate.

Remuneration Committee

The Remuneration Committee comprises the following Directors:

Director	
N H Thomlinson	Chair
D S Jenkins	
S C Bates	

The Committee also seeks advice from remuneration consultants Deloitte LLP, and legal support from Linklaters LLP. Representatives of Deloitte LLP attended two meetings of the Committee by invitation. More information on their appointment can be found on page 81 of the Remuneration Report.

Role of the Remuneration Committee and remuneration policy

The Committee is authorised to determine remuneration policy, details of which can be found in the Remuneration Report on pages 66 to 83, along with a detailed description of the work of the Remuneration Committee.

Approvals Committee

The Approvals Committee comprises any two Executive Directors and a minimum of two Non-executive Directors.

Its remit is to permit the approval of transactions between £2.0 million and £5.0 million, which are then reported to the Board. Transactions below £2.0 million are delegated to the relevant Executive Directors responsible and those above £5.0 million fall under the remit of the Board.

Investment and Development Boards

The Investment Board and Development Board comprise the Executive Directors and Senior Managers and are chaired by M H Marx and C J Barwick respectively. The Boards meet on a regular basis during the year to discuss, review and approve property transactions. These include any proposed sale and purchase transactions and proposed capital expenditure. These decisions are then ratified by the Board if expenditure is above a defined limit. The Non-executive Directors are invited to attend the Investment and Development Boards to enable them to meet with the broader management team.

Takeover Directive

Details of the required disclosure under the Takeover Directive can be found in the Directors' Report on pages 53 to 58 and the Remuneration Report on pages 66 to 83 and are incorporated herein by cross reference.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Group financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Having taken advice from the Audit Committee, the Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on page 52 of the Directors' Report, confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group, and Company; and
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

The Directors are responsible for the maintenance and integrity of the Company's website, www.developmentsecurities.com. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board
H M Ratsey
Company Secretary
30th April 2014

Annual statement from the Remuneration Committee Chairman

Dear Shareholder

I am pleased to present the Remuneration Report for the year ended 28th February 2014.

This Report has been prepared in accordance with the new remuneration reporting regulations:

- The Policy report sets out details of our directors' remuneration policy and will be subject to a binding vote at our 2014 Annual General Meeting.
- The Annual Remuneration Report provides details on how our Directors were paid in respect of the year ended 28th February 2014 and how we intend to apply our remuneration policy for Directors in the financial year ending 28th February 2015.

Summary of remuneration out-turns

For the financial year commencing 1st March 2014 we are making no increase to Executive Directors' base salaries.

The Executive Directors who are focused on development activities have received payouts under the Development Profit Plan during the year. These relate to awards granted in previous years and reflect the successful realisation of profits for the Company (above a return on equity threshold) from these projects. There were no payouts under the Strategic Profit Plan or the Investment Growth Plan.

Annual bonus payments were made in respect of the financial year ended 28th February 2014 taking into account the Committee's assessment of performance against the bonus criteria.

An assessment of the performance condition for the award made under the Performance Share Plan on 22nd March 2011 resulted in a nil vesting.

Remuneration review – new incentive structure

Ahead of the new remuneration reporting regime we undertook a comprehensive review of our executive remuneration framework.

The overarching objectives of the review were to design a simple remuneration policy that would enable us to attract and retain key individuals necessary for the successful execution of our strategy and to link remuneration payments directly to the value those individuals add to the Company.

For many years, we have operated a remuneration policy that has been focused on a number of profit plans. In the context of the key principles above, we are proposing to replace the Performance Share Plan, the Development Profit Plan, the Investment Growth Plan and the Strategic Profit Plan with one simplified long-term share plan that is directly linked to long-term shareholder value creation.

We are not proposing to make any changes to the operation of the annual bonus.

The key features of the new plan are:

- Awards of shares subject to performance conditions;
- Shares vest to the extent that company performance targets are satisfied;
- Performance measured 50 per cent at year three and 50 per cent at year four;
- A portion of vested awards will be subject to an additional holding period of either one or two years. This will result in a combined performance and holding period of no less than five years; and
- Awards of up to a maximum of three times salary per annum.

The new plan represents a very significant departure from our historic approach which has been focused on cash-based profit plans operating on a project-by-project basis. The Committee has undertaken extensive consultation and we have been pleased with the response from our shareholders.

Transitional arrangements

It is intended that our new Remuneration Policy as set out on pages 67 to 75 of this Report will apply from 1st March 2015.

Our transitional arrangements are intended to balance fairness to participants and shareholders as well as reflect legacy contractual entitlements. The transitional arrangements are as follows:

- The Performance Share Plan (PSP) will be discontinued from 1st March 2015 and no further awards will be made to Executive Directors. A final award will be made to the Chief Executive and Finance Director during the financial year ending 28th February 2015. Subsisting PSP awards will continue to run and will be performance tested at the end of the relevant performance period;
- The Development Profit Plan (DPP) will be discontinued for Directors and no further awards will be made after the implementation of our new Policy on 1st March 2015. Further awards may be made in respect of development projects until that time. DPP payments for awards made prior to 1st March 2015 will be made (to the extent that profits are realised) for a period to 1st March 2018; and
- Our other profit plans, the Investment Growth Plan and the Strategic Profit Plan will be discontinued and no further awards will be made to Directors following 1st March 2014. Any subsisting awards will lapse.

I hope you find the Remuneration Report presented below informative. In my role as Chairman of the Committee I am keen to encourage an on-going dialogue on our policies and continue to welcome our shareholders' views. I hope to receive your support for the Policy Report, the Annual Remuneration Report, and our new long-term incentive plan at the forthcoming Annual General Meeting.

Nick Thomlinson
Chairman of the Remuneration Committee, Development Securities PLC

The key objectives of the Company's Remuneration Policy are as follows:

- to ensure that Executive Directors and senior managers are rewarded in a way that attracts, retains, motivates and rewards management of the highest quality;
- to operate incentive plans designed to encourage Executive Directors and senior managers to align their long-term career aspirations with the long-term interests of the Company and shareholders' expectations;
- to promote the attainment of both individual and corporate achievements, measured against performance criteria required to deliver long-term growth and sustainability of the business; and
- to encourage sustained performance over the medium- and long-term without taking undue risk.

The total pay framework is based on a mixture of fixed and variable elements considered on a meritocratic basis at individual and Group level, taking into account the remuneration awarded to employees in the Group. The balance between fixed and variable pay is considered appropriate, given that the various incentive plans/schemes ensure a significant proportion of a key individual's remuneration package is performance related, thereby correlating with the strategic aims of the business and the performance of the Company.

Remuneration Policy Report

The Remuneration Policy (the Policy) will apply from 1st March 2015 subject to shareholder approval. For simplicity, we have aligned the Policy effective date with the year of the first award under the new Long-Term Incentive Plan, which is also subject to approval at our 2014 Annual General Meeting. However, in the interests of transparency the legacy policy which will apply up to 28th February 2015 is also set out in this Report.

Policy table for Executive Directors

Purpose of component and link to strategy	Operation	Maximum	Performance measures
Salary Core element of remuneration set at a level to attract and retain individuals of the calibre required to shape and execute the Company's strategy.	Contractual fixed cash amount paid monthly. Typically, salary levels are reviewed on an annual basis. The Committee takes into account a number of factors when setting base salary, including: ▪ Size and scope of the role; ▪ Skills and experience of the individual; ▪ Performance of the Company and individual; ▪ Appropriate market data; and ▪ Pay and conditions elsewhere in the Company.	Salary increases may be applied taking into account the factors outlined in this table. During review, consideration will also be given to increases applied to the wider employee population. In certain circumstances such as an increase in the size and scope of the role or increased experience where an individual has been hired on a lower salary initially, higher increases may be given. There is no maximum salary opportunity. The salaries for the financial year commencing 1st March 2014 for the current Executive Directors are as follows: ▪ M H Marx £400,000 ▪ M O Shepherd £325,000 ▪ M S Weiner £340,000 ▪ C J Barwick £325,000	None.

Purpose of component and link to strategy	Operation	Maximum	Performance measures
Benefits To provide Executive Directors with market competitive benefits consistent with the role.	Executive Directors currently receive the following benefits: ▪ Cash in lieu of company car; ▪ Private medical insurance; ▪ Income protection insurance; and ▪ Life assurance. Other benefits that are consistent with the role may be provided if the Committee considers it appropriate. Payments may be made to Executive Directors in lieu of any unutilised holiday allowance. The Committee may permit additional holiday in lieu of remuneration. Relocation and expatriate benefits may also be provided, if an existing or new Executive Director is required to relocate. The Executive Directors may participate in any all employee share plans adopted by the Company on the same basis as other employees.	The cost of benefits may vary from year to year depending on an individual's circumstances and the varying cost of benefits premiums. There is no maximum benefits value.	None.
Retirement benefits To provide Executive Directors with retirement benefits consistent with the role.	Defined contribution pension arrangements are provided. Pension benefits are provided through a Group Personal Pension Plan, non-pensionable cash supplement or contribution to a Personal Pension arrangement.	17.5 per cent of salary per annum.	None.
Annual bonus Incentivises and rewards Executive Directors for the successful delivery of strategic objectives on an annual basis.	Payments are based on performance in the relevant financial year. Payments up to 50 per cent of the maximum opportunity ('Target' performance) are made in cash. Any bonus above 50 per cent of the maximum opportunity will be paid in shares which the Director is expected to hold for at least two years.	150 per cent of salary per annum. Executive Directors, excluding the Chief Executive, will have a lower maximum opportunity than the percentage stated above. For the financial year ending 28th February 2015, this will be 75 per cent of salary.	The annual bonus is determined principally with reference to the four main drivers of the creation of shareholder value in our business: ▪ Accurate reading of the economic and market cycles in which we operate; ▪ Pipeline of future development projects; ▪ Active management of the investment portfolio; and ▪ Maintenance of the standards of excellence that are embedded within the Company's culture. The Committee reviews the basis of performance measurement under the annual bonus from time to time and may review and amend the measures as it considers appropriate. 50 per cent of the maximum bonus opportunity will be payable for 'Target' performance.

Purpose of component and link to strategy	Operation	Maximum	Performance measures
Long-Term Incentive Plan (LTIP) Incentivises and rewards Executive Directors for delivery of the Company's strategic plan of building shareholder value.	Awards of nil-cost options or conditional shares. The awards vest subject to the achievement of performance targets set by the Committee. 50 per cent of the award is based on performance measured over three years, with the remaining 50 per cent based on performance measured over four years. Following vesting, the awards will normally be subject to an additional holding period, for at least two thirds of the award, of up to two years such that the combined performance and holding period will, for this portion, not be less than five years in total. Dividend equivalents may be paid on awards. Awards may be subject to malus and therefore may be reduced or forfeited at the discretion of the Committee if an exceptional event occurs which has a material adverse impact on the Group including, but not limited to, reputational damage or a material failure of risk management. In addition, awards may be reduced or forfeited if results announced for any period have been restated or subsequently appeared materially financially inaccurate or misleading.	Three times base salary per annum.	The primary performance measure will be net asset value per share growth (including dividends). No less than 50 per cent of an award will be based on this measure. The Committee retains the flexibility to introduce additional measures. For threshold levels of performance, no more than 25 per cent of the award vests with 100 per cent of the award vesting for maximum performance.
Shareholding guidelines To align Executive Directors with the shareholder experience.	The Company operates shareholding guidelines for Executive Directors.	Not applicable.	Not applicable.

Legacy arrangements and transition

The Committee undertook a review of incentive arrangements in the financial year ended 28th February 2014. Following this review the new Long-Term Incentive Plan will replace a number of plans. The following table sets out plans under which no further awards will be made or where awards will be made for a short period as part of the transitional arrangements. Any subsisting awards for legacy plans will continue in accordance with the relevant plan rules.

Purpose of component and link to strategy	Operation	Maximum	Performance measures
Development Profit Plan (DPP) Incentivises and rewards Executive Directors for the performance of their portfolio of projects.	Awards are made in respect of each development project. No awards will be made to Executive Directors for projects which commence following 1st March 2015. Awards may pay out once a project makes a realised profit. No payments will be made after 1st March 2018. 50 per cent of the payment is made in cash or shares at the time profit is realised. The remaining 50 per cent is deferred until the end of the financial year and paid in cash or shares at this point.	The maximum aggregate pool available for distribution to Executive Directors and the wider team is 10 per cent of the realised profit above a hurdle for each development project.	Payments are only made under this plan once profit has been realised on a development above a threshold return (a notional cost of equity). Losses attributable to other projects in which a Director has been made an award are also taken into account when calculating payments to ensure that participants are incentivised to mitigate losses while maximising project profits. This calculation is at the Committee's discretion and will not apply in respect of certain legacy awards and projects. Where unrealised losses are deducted in the calculation but a profit is subsequently recognised a balancing payment may be made.
Additional profit plans Designed to incentivise all Executive Directors in the principal activities of the Group, namely development and the investment portfolio.	There are no subsisting awards under either the Strategic Profit Plan or the Investment Growth Plan. No further awards will be made under these two plans.		
Performance Share Plan (PSP) Incentivises and rewards Executive Directors for the sustainable creation of shareholder value over the longer term.	An award of nil-cost options or contingent shares made on an annual basis. No awards will be made to Executive Directors under the Performance Share Plan from 1st March 2015. The awards vest subject to the achievement of performance targets over a three year performance period. Dividend equivalents may be paid on awards up to the point of vesting.	200 per cent of base salary as set out in the plan rules. In practice, awards of 75 per cent of salary and 50 per cent of salary have been made to the Chief Executive and other Executive Directors respectively.	Awards vest based on relative TSR performance and NAV per share growth over the performance period. The performance measures are equally weighted for all outstanding awards. The Committee may change or waive a performance condition in accordance with its terms or if anything happens which causes the Committee reasonably to consider it appropriate to do so. For threshold levels of performance, 25 per cent of the award vests with 100 per cent of the award vesting for maximum performance.

Notes to the policy table

Application of Policy

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) that are not in line with the Policy set out above where the terms of the payment were (i) agreed before the Policy came into effect; or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes, 'payments' includes the Committee satisfying awards of variable remuneration and an award of shares or cash is 'agreed' at the time the award is granted.

Discretion

The Committee will operate the LTIP, PSP and DPP in accordance with the relevant plan rules. In particular, the Committee retains discretion on the operation and administration of these plans as follows:

- Dividend equivalents may be paid on awards up to the point of vesting including on a reinvested basis;
- While LTIP and PSP awards will normally be delivered in shares, the Committee may settle an award in cash; and
- In the event of a variation of the Company's share capital, a demerger, special dividend or distribution or any other corporate event which, in the Committee's opinion might affect the current or future value of awards, the Committee may adjust the number of shares, the exercise price and the performance condition.

Awards may be amended in accordance with the rules approved by shareholders.

Payment in shares

Where a payment under the Development Profit Plan exceeds £1.0m in one financial year, two-thirds of the payments above £1.0m will be made in shares which the Director is expected to hold for at least two years. This will apply if the Director's shareholdings are less than two times salary.

The Committee may increase the level of share deferral for incentives at any time.

Takeover or other corporate event

For outstanding LTIP and PSP awards, on a takeover or other corporate event, generally the performance period will end on the date of the event. The Committee will determine vesting having regard to the extent to which performance conditions have been achieved at this point taking into account any other factors they consider relevant. Awards will generally vest on a time pro-rata basis taking into account the shortened performance period, unless the Committee determines otherwise. Awards subject to a holding period will be released as part of the transaction.

Alternatively, outstanding LTIP and PSP awards may be subject to rollover, with the agreement of the acquiring company.

Other corporate events may include (but are not limited to) a demerger, delisting, distribution (other than an ordinary dividend), reverse takeover and merger by way of dual listing.

Under the DPP, on a takeover, the Committee can bring forward award payments. The amount of the payments will not exceed the bonus pool and, subject to that, are determined by the Committee on the basis of estimated profits.

Minor changes

The Committee may make minor amendments to the Policy set out in this Report (for example for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for the amendment.

Performance measures and target setting

Annual bonus

The Committee has always taken a somewhat different approach to the annual bonus compared to our competitors, in that the annual bonus has never been formulaically driven by the annual financial results but reflects a measure of annual performance in the context of the length of the property cycle. The annual bonus is designed to reward Executive Directors for the successful execution of the four main drivers of shareholder value creation.

Long-term incentive plan

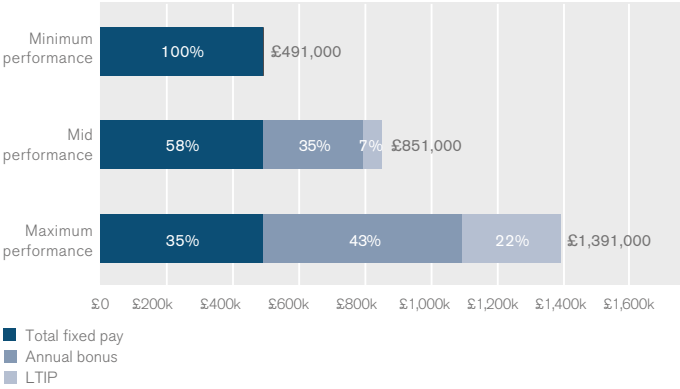
The Company's overarching objective is to build shareholder value over the long-term. Following a review of our incentive arrangements, for awards made in 2015, the Long-Term Incentive Plan will measure the Company's NAV per share growth over three and four years. This will ensure that Directors are closely aligned to the shareholder experience as our NAV per share growth performance is a key indicator of the performance of the business and is closely related to share price performance.

Targets are positioned at a level which the Committee considers to be stretching but which do not incentivise a change in our risk approach.

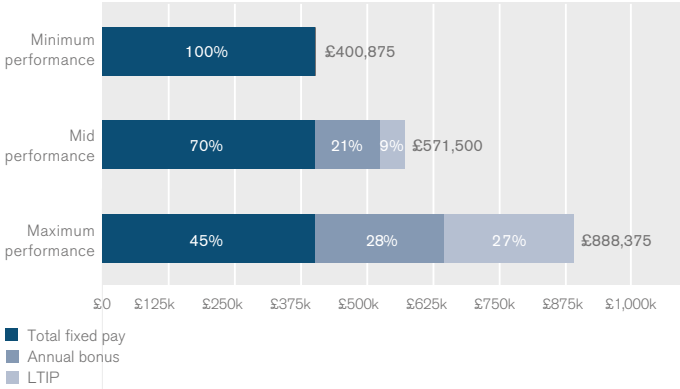
Illustrations of Remuneration Policy

Illustrations of the Remuneration Policy applying from 1st March 2015 are provided below. These reflect the intended operation of the new policy in the first year.

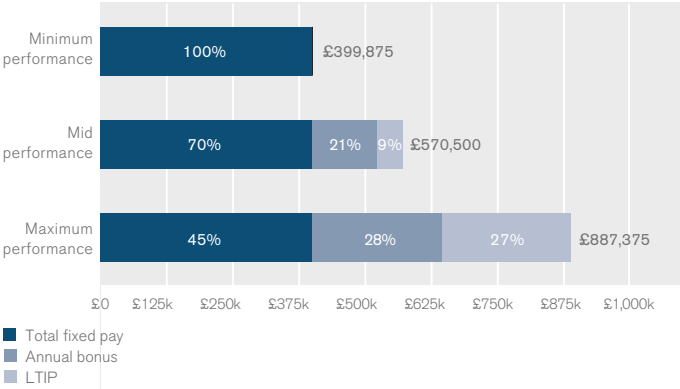
M H Marx



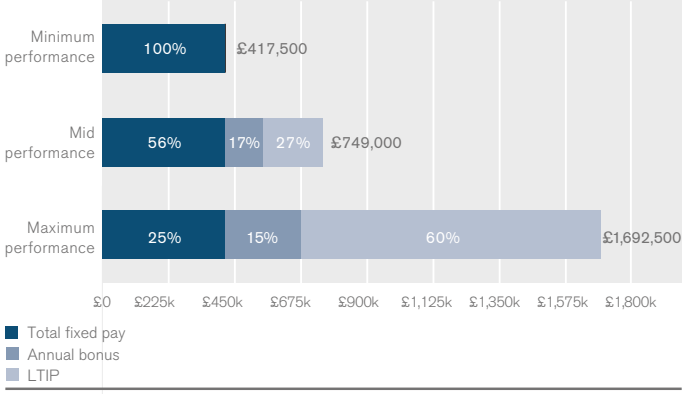
C J Barwick



M O Shepherd



M S Weiner



The assumptions used for these charts are as follows:

	Levels of performance	Assumptions
Fixed pay	All scenarios	▪ Total fixed pay comprises base salary, benefits and pension. ▪ Base salary – effective as at 1st March 2014. ▪ Benefits – amount received by each Executive Director for the financial year ended 28th February 2014 as per single figure table on page 77. ▪ Pension – 17.5 per cent base salary pension contributions.
Variable pay	Minimum performance	▪ No payout under the annual bonus. ▪ No vesting under the Long-Term Incentive Plan.
	Mid performance	▪ 50 per cent of the maximum payout under the annual bonus. ▪ 20 per cent vesting under the Long-Term Incentive Plan.
	Maximum performance	▪ 100 per cent of the maximum payout under the annual bonus. ▪ 100 per cent vesting under the Long-Term Incentive Plan.

LTIP awards have been shown at face value with no dividend, share price growth or discount rate assumptions. Payments relating to legacy DPP and PSP awards made in respect of previous financial years are also excluded.

Award levels reflect a 300 per cent of salary award for M S Weiner and a 75 per cent of salary award for other Executive Directors.

Differences in Remuneration Policy for Executive Directors compared with other employees

As for our Executive Directors, a sizeable proportion of employee pay is dependent on Company, team and individual performance. All employees participate in the annual bonus, with the weighting of individual and corporate measures dependent on an individual's role and their ability to directly influence the Company's results.

Individuals below the Board who are involved in the management of our development projects may be invited to participate in the DPP as appropriate. While this plan is to be discontinued for Executive Directors with effect from 1st March 2015, it is intended that it will continue to operate below the Board to ensure that individuals at this level are rewarded for profit realisation from development projects.

Policy table for Non-executive Directors

Component	The Company's approach
Chairman fees	▪ Comprises an all-inclusive fee for all Board and Committee responsibilities. ▪ Determined by the Remuneration Committee and approved by the Board.
Non-executive Director fees	▪ Comprises a basic fee in respect of their Board duties. ▪ Further fees may be paid in respect of additional Board or Committee duties. ▪ Recommended by the Chairman and Chief Executive and approved by the Board.

Expenses incurred in the performance of Non-executive Directors' duties may be reimbursed or paid for directly by the Company, including any tax due on those expenses.

No Director plays a role in determining their own remuneration. Fees for all Non-executive Directors are set at a level sufficient to attract and retain individuals with the required skills, experience and knowledge to allow the Board to carry out its duties. The fees set out above are the sole element of Non-executive Director remuneration. They are not eligible for participation in the Company's incentive or pension plans.

The fees are set within the aggregate limits set out in the Company's Articles of Association and approved by shareholders.

Approach to remuneration on recruitment

The Committee will apply the following principles on the recruitment of a new Executive Director:

- Although the Company operates in a highly competitive market for talent the Committee is mindful of the need to avoid paying more than is necessary on recruitment;
- The package of a new Executive Director would, so far as practical, be aligned with the Policy set out in the table on pages 67 to 75;
- Salaries would reflect the skills and experience of the individual, and may be set at a level to allow future salary progression to reflect performance in the role. For interim positions a cash supplement may be paid rather than salary (for example a Non-executive Director taking on an executive function on a short-term basis);
- It would be expected that the structure and quantum of the variable pay elements would reflect those set out in the policy table on pages 67 to 69. However, at recruitment, the Committee may flex the balance between annual and long-term incentives and the measures used to assess performance; and
- Variable pay on recruitment (excluding buy-outs) would be subject to the maximums in line with the on-going incentive policy maximums set out in the policy table on pages 67 to 69 being 150 per cent of salary for annual bonus and 300 per cent of salary for the LTIP.

In the event that an individual is internally promoted to the Board (including if an Executive Director is appointed following an acquisition or merger), the Company would normally honour all legacy arrangements in line with their original terms.

Buy-outs

To facilitate recruitment, the Committee may make compensatory payments and/or awards for any remuneration arrangements subject to forfeit on leaving a previous employer. Any buy-out would take into consideration the terms of the arrangement being forfeited and would take into account all relevant factors such as the form, expected value, performance conditions, anticipated vesting and timing of the forfeited remuneration. There is no limit on the value of such awards, but the Committee's intention is that the value awarded would be no more than the commercial value forfeited.

Recruitment of Non-executive Directors

On the appointment of a new Chairman or Non-executive Director, remuneration arrangements will be consistent with the Policy set out in this Report.

Service contracts – Executive Directors

The dates of the current contracts in place for the Executive Directors are as follows:

Executive Director	Date of contract
M H Marx	24th June 1994
M O Shepherd	8th October 2012
C J Barwick	12th May 1998
M S Weiner	17th March 2004

The Executive Directors' service contracts do not specify an expiry date and may be terminated upon twelve months' notice by either the Director or the Company. For the initial period of 18 months M O Shepherd's notice period is 18 months, following the initial period this reduces to twelve months in line with the other Executive Directors.

In the event of early termination, a payment in lieu of notice may be made which may include salary, pension and benefits.

The Company's policy on termination payments is to consider the circumstances on a case-by-case basis, taking into account the relevant contractual provisions, the circumstances of termination and any applicable duty to mitigate.

An Executive Director may be hired on a contract that has a longer notice period (up to 18 months) during an initial pre-determined period.

The Chairman and Non-executive Directors have letters of appointment rather than service contracts. Details of the dates of appointment are set out below:

Non-executive Director	Date of appointment
D S Jenkins	10th January 2007
S C Bates	5th January 2010
N H Thomlinson	3rd January 2012

The Non-executive Directors' appointments are terminable at the will of the parties but are envisaged to establish an initial term of three years, after which they will be reviewed annually.

The notice periods are currently 12 months in the case of the Chairman and six months for other Non-executive Directors.

The Executive Directors' service contracts and the Non-executive Directors' letters of appointment are available at the Company's registered office from the Company Secretary.

Policy on payment for loss of office

Where an Executive Director leaves employment, the Committee's approach to determining any payment for loss of office will normally be based on the following principles:

- The Committee's objective is to find an outcome which is in the best interests of both the Company and its shareholders while taking into account the specific circumstances of cessation of employment;
- The Company may make a contribution towards an Executive Director's legal fees in connection with advice on the terms of their departure;
- The Committee may make an annual bonus payment for the year of cessation depending on the reason for leaving. Typically, the Committee will take into consideration the period served during the year and the individual and the Company's performance up to cessation. Any such payment is at the discretion of the Committee;

- The treatment of outstanding share awards will be governed by the relevant plan rules as set out in the table below. For the purposes of this table, good leaver reasons include (but are not limited to) cessation due to ill-health, redundancy, retirement, death and any other reason at the discretion of the Committee; and
- If awards are made on recruitment (such as buy-outs) the treatment on leaving would be determined, at that time.

On-going plans

Plan	Treatment on cessation of employment
Long-term incentive plan	▪ Unvested awards will normally lapse in full unless a participant is a good leaver. ▪ If the Committee determines that a participant is a good leaver, they will determine the proportion of the award that vests to the extent that any performance condition is satisfied on the vesting date and they will take into account the time elapsed between the start of the performance period and cessation of employment, unless the Committee determines otherwise. ▪ The vesting date for such awards will normally be the original vesting date, although the Committee has the flexibility to determine that awards can vest early upon cessation of employment or at a later date. In the event of death awards vest on cessation. ▪ Where options are granted, vested options will typically remain exercisable for twelve months from the date of vesting. In the event of death awards remain exercisable for 24 months. ▪ Where an individual leaves during the holding period of an award, the award will usually be released at the normal time, except in the case of death or if the Committee dis-applies the holding period. In the event of an individual's dismissal for misconduct during the holding period, all awards will lapse.

Legacy plans

Plan	Treatment on cessation of employment
Development Profit Plan	▪ Awards will normally lapse in full unless a participant is a good leaver. ▪ If a participant is treated as a good leaver and ceases employment before the bonus is paid, the Committee may decide that some, or all, of the participant's bonus is paid to him at the same time as they are paid to other participants.
Performance Share Plan	▪ Awards will normally lapse in full unless a participant is a good leaver. ▪ If the Committee determines that a participant is a good leaver, they will determine the proportion of the award that vests, normally taking into account the achievement of the relevant performance conditions at the vesting date and the time elapsed between the date of grant and cessation of employment. ▪ The vesting date for such awards will normally be the original vesting date, although the Committee has the flexibility to determine that awards can vest upon cessation of employment. ▪ Where options are granted, vested options will typically remain exercisable for twelve months from the date of vesting. ▪ On death, an award will vest in full on the date of death.
HMRC approved all employee share plans	▪ In line with the HMRC approved plan rules.

The Committee must satisfy any contractual obligations agreed with the Executive Director. This is dependent on the contractual obligations from 1st March 2015 (i) not being in contradiction with the Policy set out in this Report, or (ii) if so, not having been entered into on a date later than 27th June 2012 , in accordance with the relevant legislation.

Consideration of pay and employment conditions elsewhere in the Company

The Committee considers pay and employment conditions elsewhere in the Company when developing policies for Executive Directors. The Committee does not view formal comparison metrics when considering policy. However the Committee is kept updated and has input into the remuneration decisions for the wider employee population. For example the Committee will typically review the annual bonuses for all employees.

Consideration of shareholder views

The Committee takes an active interest in shareholder views on remuneration. The Remuneration Policy presented to shareholders has been shaped by dialogue with our shareholders who universally requested that we simplify arrangements and align them more closely with overall Company results. We consulted with many of our major shareholders during 2013, and in 2014 we undertook a significant consultation exercise prior to implementing our new Long-Term Incentive Plan. The proposed structure of our policy is as a result of that process.

Annual Remuneration Report

The remainder of this report provides details of our remuneration policy for the financial year commencing 1st March 2014 and how it was applied during the financial year ended 28th February 2014.

Implementation of remuneration policy in the financial year ending 28th February 2015

The Policy for which we are seeking shareholder approval will be effective from 1st March 2015. The financial year, beginning on 1st March 2014, is therefore a transitional year. The components of remuneration for this financial year will be determined according to whether a Director is actively involved in securing new developments or whether they play a broader oversight role.

The tables below provide an overview of the components of the Executive Directors' remuneration framework for the financial year ending 28th February 2015.

Directors directly involved in development opportunities				
Fixed pay	+	Annual bonus	+	DPP

Chief Executive and Finance Director				
Fixed pay	+	Annual bonus	+	PSP

Salary

The salaries which will apply for the financial year beginning 1st March 2014 are set out below.

No Director received an increase in salary during the year.

Directors' base salary per annum	**1st March 2014 £'000**	1st March 2013 £'000	2013/2014 Increase %
M H Marx	**400**	400	0.0
M O Shepherd	**325**	325	0.0
C J Barwick	**325**	325	0.0
M S Weiner	**340**	340	0.0

Retirement benefits

The existing money purchase pension scheme is now closed to future contributions and new joiners and pension is provided via a Group Personal Pension Plan. The contribution structure for Executive Directors remains unchanged at 17.5 per cent of salary for the financial year ending 28th February 2015.

Annual bonus

The non-pensionable annual bonus is based on the performance of the Company during the year, team achievements and the specific contribution of individuals concerned. With the exception of M H Marx, Executive Directors are set a Target bonus of 37.5 per cent of salary and a maximum of 75.0 per cent of salary. The bonus potential for M H Marx is 75.0 per cent at Target and 150.0 per cent at maximum performance.

There will be no change to the operation of the annual bonus for the financial year ending 28th February 2015 as outlined on page 78.

Development Profit Plan

As set out on page 66 of this Report, we have recently undertaken an extensive review of our remuneration policy which has resulted in us seeking approval for a new LTIP to be operated from 1st March 2015 onwards.

As part of the transition arrangements, the financial year ending 28th February 2015 will be the last in which new awards will be made under the DPP to reward and incentivise Directors that have brought successful development opportunities to the Company. The Chief Executive and Finance Director do not participate in this plan.

As in previous years, awards are based on a percentage of the bonus pool which becomes payable once the development has achieved realised profits. The maximum bonus pool available for distribution to Executive Directors and the wider team is 10.0 per cent of the realised profit for each development. This is calculated once a notional cost of equity of 12.5 per cent is deducted, so that the pool generated only relates to profits over and above a threshold return.

In 2013, the concept of netting off was introduced in respect of transitional projects since August 2009 such that any realised and unrealised losses in respect of an Executive Directors' portfolio will be taken into account when a profit is realised on a project. Projects prior to 2009 and certain other legacy projects are excluded.

Payments in respect of awards made under this plan may be made up to 1st March 2018. No further awards will be made in respect of projects following 1st March 2015.

Performance Share Plan

Awards will be made under the current PSP to the Chief Executive and Finance Director during the financial year ending 28th February 2015 of 75.0 per cent of salary and 50.0 per cent of salary respectively. No awards will be made to any other Directors under this plan. Following the financial year ending 28th February 2015 this plan will be discontinued for Executive Directors.

Awards made in the financial year ending 28th February 2015 will be subject to two, equally weighted, performance conditions over a three year performance period:

Performance measure	Threshold vesting (25% of award)	Maximum vesting (100% of award)
Relative TSR against the constituents of the FTSE Real Estate Investment Trust Index and the FTSE Real Estate Investment Services Index	Median	85th percentile
NAV per share growth	RPI + 3% p.a.	RPI + 10% p.a.

Pro-rating vesting will apply between these points.

There are two underpins that must be satisfied for awards to vest. Firstly, the Committee must be satisfied that there has been a sustained improvement in the Company's underlying financial performance over the performance period (typically by considering the change in net asset value). In addition, the Committee must be satisfied that performance has not been achieved as a result of inappropriate financial risk (for example very high levels of gearing) and that the level of financial and business risk is in line with the Company's stated strategy.

Strategic Profit Plan and Investment Growth Plan

The Strategic Profit Plan and the Investment Growth Plan have now been discontinued.

Non-executive Directors' fees

Fees for the financial year ending 28th February 2015 are set out in the table opposite:

Non-executive Directors' fees per annum	**1st March 2014 £'000**	1st March 2013 £'000
Chairman	**90.0**	90.0
Basic Non-executive fee	**40.0**	40.0
Chairmanship of either Audit or Remuneration Committee	**7.5**	7.5
Membership of either Audit or Remuneration Committee	**2.5**	2.5
Senior Independent Director fee	**5.0**	5.0

Savings related options scheme

The Save As You Earn Option Plan 2005 is due to expire on 12th May 2015. Shareholder approval for the extension to this plan will be sought at the forthcoming Annual General Meeting.

Single total figure of remuneration (audited)

The table below sets out the total remuneration receivable by each of the Directors who held office for the year to 28th February 2014 with a comparison to the previous financial year:

Executive Directors		Fees and salary	Benefits*	Pension**	Annual bonus	DPP	IGP	SPP	PSP	Total
M H Marx	2014	400	21	61	400	0	0	0	0	882
	2013	400	26	61	0	0	0	0	0	487
M O Shepherd	2014	325	18	56	122	0	0	0	0	521
(appointed 18th February 2013)	2013	9	0	1	0	0	0	0	0	10
C J Barwick	2014	325	19	57	0	424	0	0	0	825
	2013	325	18	56	0	19	0	0	0	418
M S Weiner	2014	340	18	58	128	1,328	0	0	0	1,872
	2013	340	17	58	0	158	0	0	0	573
Non-executive Directors										
D S Jenkins	2014	90	–	–	–	–	–	–	–	90
	2013	90	–	–	–	–	–	–	–	90
S C Bates	2014	55	–	–	–	–	–	–	–	55
	2013	51	–	–	–	–	–	–	–	51
N H Thomlinson	2014	50	–	–	–	–	–	–	–	50
	2013	46	–	–	–	–	–	–	–	46

* Benefits received during the year include motor vehicles, cash in lieu of motor vehicle, fuel and medical insurance.

** Pension contributions received during the year include contributions to the Company's approved scheme, cash supplements or waived for additional holiday entitlement.

Incentive out-turns

Annual bonus

The Committee has always taken a somewhat different approach to the annual bonus compared to our competitors, in that the annual bonus has never been formulaically driven by the annual financial results but reflects a true measure of annual performance in the context of the length of the property cycle.

The annual bonus in respect of the Executive Directors is determined principally by the four main drivers for the creation of shareholder value in our business: namely, accurate reading of the economic and market cycles in which we operate; the pipeline of future development projects; active management of the investment portfolio; and the maintenance of the standards of excellence that are embedded within the Company's culture.

The annual bonus payments made to Executive Directors in respect of the financial year ended 28th February 2014 reflect the strategic progress made by the Group across our portfolio. This included:

- Development of the pipeline of future development projects to create value through regeneration;
- Progress on legacy assets; and
- Performance in the management and on-going strategy for the investment portfolio.

When determining annual bonuses and awards under the DPP there is no 'double-counting'. The contribution of any team or individual performance which leads to awards under the DPP is disregarded for the purposes of the annual bonus.

The Committee decided that the following annual bonuses would be paid in respect of the year ended 28th February 2014.

	28th February 2014 £'000	28th February 2013 £'000	**28th February 2014 % of maximum**	28th February 2013 % of maximum
M H Marx	**400**	0.0	**66.7**	0.0
M O Shepherd	**122**	0.0	**50.0**	0.0
C J Barwick	**–**	0.0	**–**	0.0
M S Weiner	**128**	0.0	**50.0**	0.0

100.0 per cent of any annual bonus awarded which is above Target will be paid in shares which the recipient must hold for at least two years. This condition will apply to the award made to M H Marx.

Development Profit Plan

Under the rules of the Development Profit Plan the following projects realised a profit during the financial year and so payments were made as follows. Each project was subject to a 12.5 per cent notional cost of equity threshold.

Project	C J Barwick £'000	M S Weiner £'000
Awards granted in previous years that resulted in an award		
PaddingtonCentral[1]	424.0	–
Westminster Palace Gardens, London	–	186.1
Rock portfolio	–	339.2
Phones 4u Arena[1]	–	499.1
Loan Portfolio B	–	303.9

1. Awards subject to netting off, half of the award will be assessed following the completion of the Group audit.
2. From 1st March 2012, the Company operated an additional shareholding requirement, which will operate where significant success is achieved and rewarded via the Company's focused profit plans. Where payments under the Development Profit Plan, Investment Growth Plan and Strategic Profit Plan, in aggregate, exceed £1.0 million in one financial year, two-thirds of the payment above £1.0 million will be made in shares. In receiving the above awards M S Weiner reached this threshold resulting in £52,636 of the award being made in shares which must be retained for two years.

An amount of £1,098,000 has been provided for in these financial statements in respect of bonus payments awarded to M S Weiner under the Development Profit Plan that will be paid during the following financial year. This award relates to the Chrome portfolio.

Performance Share Plan

Awards were made under the PSP in 2011 subject to the Company's relative TSR performance against the constituents of the FTSE Real Estate Investment Trust Index and the FTSE Real Estate Investment Services Index over the period 1st January 2011 to 31st December 2013. The Company's TSR performance was below the median of the comparator group over the performance period and so the award lapsed in full.

Share option schemes

The outstanding awards under the 2005 Executive Share Option Scheme were tested during the year and failed to meet the performance conditions. There are currently no outstanding awards under the scheme.

Awards granted during the year

Development Profit Plan (audited)

The table below sets out awards granted during the year. As explained above, payments may be made under this plan up to 1st March 2018.

Project	C J Barwick % award	M S Weiner % award
South Woodham Ferrers, Essex	–	4.50
Deeley Freed	–	6.00
Central London Property	2.00	4.00
Percy Place, Dublin	–	6.00
North London Office Portfolio	–	3.00
Tubs Hill House, Sevenoaks	–	4.00
Market Place Romford	–	4.00

Performance Share Plan (audited)

On 29th May 2013, awards were made under the Performance Share Plan as follows:

	Type	Number of shares	Face value (% of salary)*	Performance conditions**	End of performance period	% vesting at threshold
M H Marx	Conditional share award	156,250	75	50% relative TSR 50% NAVps growth**	31st December 2015	25
M O Shepherd		84,635	50			
C J Barwick		84,635	50			
M S Weiner		88,542	50			

* The face value has been calculated based on the share price at 21st May 2013 of 192 pence per share.
** The performance measures and targets for these awards are the same that apply to the 2014 awards described above on page 76. In addition, the financial performance and risk underpins will also apply to these awards.

Executive Directors' shareholdings (audited)

Executive Directors are subject to a shareholding requirement of one half of basic salary within two years of appointment, rising to an amount equivalent to one times basic salary after four years. M H Marx, C J Barwick and M S Weiner have all met the amount equivalent to basic salary.

From 1st March 2012, the Company has operated an additional shareholding requirement, which will operate where significant success is achieved and rewarded via the Company's focused profit plans. Where payments under the Development Profit Plan, Investment Growth Plan and Strategic Profit Plan, in aggregate, exceed £1.0 million in one financial year, two thirds of the payment above £1.0 million will be made in shares. This will apply if the Director's shareholdings are less than two times salary. The amount paid in shares will be subject to a two-year retention period.

The interests of all the Directors (together with interests held by his or her connected persons), all of which were beneficial, in the share capital of the Company, are:

Executive Directors	Shares owned outright as at 28th February 2014*	% of shareholding guideline achieved***	Interest in shares/ options subject to performance	Interest in shares/ options subject to continued employment only
M H Marx	529,525	339	383,523	5,921
M O Shepherd**	28,347	45	84,635	0
C J Barwick	272,399	215	207,741	0
M S Weiner	166,012	125	217,330	5,921
Non-executive Directors				
D S Jenkins	34,325	–	0	0
S C Bates	30,000	–	0	0
N H Thomlinson	20,000	–	0	0

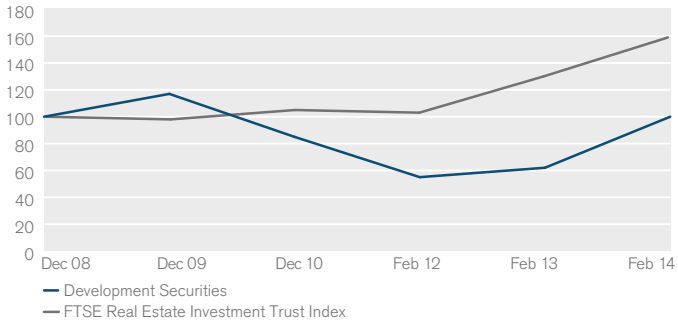
* Including shares held by connected persons.
** Shareholding requirement will be tested after two years.
*** Calculation derived from the market value of 256 pence per share as at 28th February 2014.

M S Weiner's interest in 69,382 share options awarded under the Executive Share Option Scheme 1995 expired on 18th April 2014. There have been no other changes in the Directors' interests in the share capital of the Company as set out in the table above, between 28th February 2014 and the date of this Report.

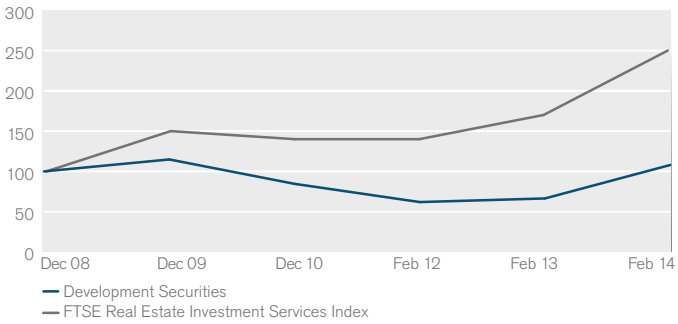
Historical Total Shareholder Return performance

The graphs below demonstrate the Company's TSR performance over five financial periods as represented by share price growth plus reinvested dividends, against both the FTSE Real Estate Investment Trust Index and the FTSE Real Estate Investment Services Index. The FTSE All Share Real Estate Index used in previous years has ceased to be published and, having reviewed the constituents of the previous index, it is considered that the constituents of these two indices are the most appropriate for comparison of the Company's business performance against that of its competitors. The Company is a constituent of the FTSE Real Estate Investment Services Index, but a number of constituents of the FTSE Real Estate Investment Trust Index are also considered as within the Company's peer group.

Historical Total Shareholder Return Performance



Historical Total Shareholder Return Performance



Chief Executive's remuneration for previous five years

The table below shows the total remuneration figure for the Chief Executive for the same five year period as the preceding TSR graphs. The annual bonus and LTIP percentages show the payout for each year as a percentage of the maximum opportunity.

	2009	2010	2012*	2013	2014
Single total figure of remuneration (£'000)	767	865	714	487	882
Annual bonus (% of maximum)	80	63	21	0	67
LTIP vesting (% of maximum)	0	0	0	0	0

* As a result of the change in the Company's year-end, amounts shown for 2012 are in respect of a 14 month period ending 29th February 2012, whereas all the other amounts are in respect of a 12 month financial period.

Percentage change in Chief Executive's remuneration

The table below sets out in relation to salary, taxable benefits and annual bonus the percentage change in remuneration in relation to the Chief Executive compared to the wider workforce.

	Chief Executive % change	Wider workforce % change
Salary	0.0	6.5
Taxable benefits	(19.2)	1.3
Annual Bonus[1]	–	66.7

1 The Chief Executive's bonus in the previous year was £0 and therefore it is not possible to calculate the percentage change.

Relative importance of spend on pay

The following table sets out the overall expenditure on pay and total dividends paid in the year.

	2014	2013	% change
Dividends[1]	**5,868**	6,845	(14.3)
Overall expenditure on pay [2]	**8,465**	7,705	9.9

1 These figures have been extracted from Note 8 to the Accounts on page 104.
2 These figures have been extracted from Note 5 to the Accounts on page 103.

Role and constitution of the Committee

The Committee's full terms of reference are set out on the Company's website www.developmentsecurities.com and are available on request from the Company Secretary. Its principal role is to determine the total remuneration of the Executive Directors and to ensure that senior management remuneration is consistent with corporate policy.

Advisers

The Committee sought professional advice from external remuneration consultants Deloitte LLP (who are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting). The Committee is satisfied that the advice it receives is objective and independent. Deloitte LLP's fees for providing advice to the Remuneration Committee amounted to £83,600. Representatives of Deloitte LLP attended two meetings of the Committee by invitation. Deloitte LLP undertook the audit of the Development Securities Retirement Benefit Scheme of which the Company is Trustee, but otherwise undertakes no other work for the Company. In addition, legal support was provided by Linklaters LLP.

M H Marx, the Chief Executive provided advice in respect of the remuneration of the other Executive Directors but was not in attendance when his own remuneration was discussed. H M Ratsey, Company Secretary, acts as secretary to the Committee.

The Remuneration Committee as constituted by the Board

The Committee met five times in the year under review.

Committee members	Considered independent Non-executive Director	Meetings attended
N H Thomlinson (Chairman)	Yes	5
D S Jenkins*	–	5
S C Bates	Yes	5

*Non-executive Chairman.

Following the Board evaluation process the effectiveness of the Committee was reviewed and the Committee was considered to be operating effectively. No member has any personal financial interest in the matters to be decided.

Statement of voting at the last Annual General Meeting

The Company remains committed to the on-going shareholder dialogue and takes an active interest in voting outcomes. The following table sets out the actual voting in respect of the advisory vote to approve the Directors' Remuneration Report at the Company's Annual General Meeting on 28th August 2013:

Resolution	Votes for	% of Vote	Votes against	% of Vote	Votes withheld
Approve Remuneration Report	99,948,341	91.52	9,257,851	8.48	68,032

Incentive awards outstanding at year-end (audited)

Details of incentive awards outstanding at the year-end are shown in the tables below:

Performance Share Plan

	Date of grant	Market price at date of grant Pence per share	28th February 2013 Number of shares	Granted	Lapsed	Exercised	**28th February 2014 Number of shares**	Final vesting date
M H Marx	22.03.11	228.00	130,862		130,862			31.12.13
	29.05.12	130.50	227,273				**227,273**	31.12.14
	29.05.13	201.00		156,250			**156,250**	31.12.15
C J Barwick	22.03.11	228.00	70,883		70,883			31.12.13
	29.05.12	130.50	123,106				**123,106**	31.12.14
	29.05.13	201.00		84,635			**84,635**	31.12.15
M S Weiner	22.03.11	228.00	70,883		70,883			31.12.13
	29.05.12	130.50	128,788				**128,788**	31.12.14
	29.05.13	201.00		88,542			**88,542**	31.12.15
M O Shepherd	29.05.13	201.00		84,635			**84,635**	31.12.15

Options

	28th February 2013 Number of shares	Granted	Lapsed	Exercised	**28th February 2014 Number of shares**	Exercise price Pence per share	Market price at exercise Pence per share	Gain on exercise £'000	Date from which exercisable	Expiry date
M H Marx										
Savings related scheme*	5,921				**5,921**	152.00	–	–	01.12.14	31.05.15
M S Weiner										
Executive option scheme 1995	69,382				**69,382****	347.50	–	–	19.04.07	18.04.14
Executive Share Option Scheme 2005	41,435		41,435		**0**				27.10.08	26.10.15
Executive Share Option Scheme 2005	41,435		41,435		**0**				28.04.09	27.04.16
Savings related scheme*	5,921				**5,921**	152.00	–	–	01.12.14	31.05.15

* These options are not subject to performance conditions. There were no grants for year ending 28th February 2014. The options may be exercised after three years at a price not less than 80.0 per cent of the market value of the shares at the time of invitation.

** These share options expired on 18th April 2014 which is prior to the date of this report, however the options were still in existence as at the financial year end.

Development Profit Plan (audited)

Project	C J Barwick % award	M S Weiner % award
Awards granted in previous years		
399 Edgware Road, London	4.00	4.00
10 Hammersmith Grove, London	3.50	—
The Square, Hale Barns, Cheshire	—	6.50
Shepherds Bush Market, London	1.00	5.50
The MVMNT, Greenwich	—	7.00
328 Sandbanks Road, Dorset	—	6.00
The Old Vinyl Factory, Hayes	—	6.00
Cross Quarter, Abbey Wood	—	4.50
Kensington Church Street, London	—	6.00
Chorlton Cross Shopping Centre, Manchester	—	6.00
Chrome portfolio	—	6.50
Awards Granted during the year and up to the date of this report		
South Woodham Ferrers, Essex	—	4.50
Deeley Freed	—	6.00
Central London Property	2.00	4.00
Percy Place, Dublin	—	6.00
North London Office Portfolio	—	3.00
Tubs Hill House, Sevenoaks	—	4.00
Market Place Romford	—	4.00

Approved by the Board and signed on its behalf by:

N H Thomlinson
Chairman of the Remuneration Committee
30th April 2014

Independent Auditors' Report to the Members of Development Securities PLC

Report on the Group financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Group's affairs as at 28th February 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements (the 'financial statements'), which are prepared by Development Securities PLC, comprise:

- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Balance Sheet as at 28th February 2014;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the 2014 Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £4.4 million. This represents approximately 0.75 per cent of total assets. We set specific materiality of £1.0 million for certain balances impacting gross profit and profits from joint ventures and associates.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £220,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of the audit

The Group is structured under 204 statutory entities and joint ventures in the UK, Republic of Ireland, Jersey, Guernsey and Luxembourg. These statutory entities and joint ventures represent the reporting units which are consolidated in the Group financial statements.

The preparation of the Group financial statements is managed on a consolidated basis, so the whole business was subject to the same audit scope. In establishing the overall approach to our audit, we assessed the risk of material misstatement, taking into account the nature, likelihood or potential magnitude of any misstatement. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 62.

Area of focus	How the scope of our audit addressed the area of focus
Fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. We focused on the recognition of revenue from one-off transactions and its classification in the income statement. (Refer also to note 1(h) to the financial statements.)	We tested material property sales to ensure revenue is recognised appropriately and in line with IFRS. Our testing focused on understanding whether a sale had actually occurred, through agreeing cash receipts and reading extracts of related contracts – for example a property sale completion statement. We also tested a sample of manual adjustments to revenue .
Valuation of properties We focused on this area because the investment and trading and development properties represent the majority of assets in the Consolidated Balance Sheet. Property valuations are subject to a high level of judgement as they are calculated from a number of different assumptions specific to each individual property or development site. A relatively small percentage change in valuations of individual properties, in aggregate, could result in a material impact to the financial statements. (Refer also to notes 10 and 15 to the financial statements.)	We performed testing to ensure that the information supplied to the external valuers appointed by the Directors was consistent with the underlying property records held by the Group and tested during our audit. We met with the external valuers to understand and consider the appropriateness of the key assumptions underpinning the valuations. We discussed the valuation of development and internally valued investment properties with the Directors and developed an independent view of the underlying valuation appraisals and the assumptions within these.
Recoverability of financial assets The Group holds a number of loans with partners that must be assessed for recoverability at each period end. We focused on this area as recoverability is assessed through cash flow models, which can be complex with a number of different inputs and judgement involved. (Refer also to note 18 to the financial statements.)	We evaluated and tested management's assessment of recoverability by auditing the detailed cash flow projections and assumptions which underpin these.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group and examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud. We also tested a sample of manual adjustments and journal entries, with a particular focus on those impacting the reported profits.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 63, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

Independent auditors' report to the members of Development Securities PLC continued

On page 65 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 62, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 65, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have reported separately on the Parent company financial statements of Development Securities PLC for the year ended 28th February 2014 and on the information in the Directors' Remuneration Report that is described as having been audited.

Julian Jenkins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30th April 2014

Consolidated Statement of Comprehensive Income

For the year ended 28th February 2014

	Notes	Year ended 28th February 2014 £'000	Year ended 28th February 2013 £'000
Revenue	2	**79,343**	99,668
Direct costs	2	**(51,544)**	(68,989)
Gross profit	2	**27,799**	30,679
Operating costs	2	**(14,029)**	(13,012)
Gain on disposal of investment properties	2	**539**	864
Gain/(loss) on revaluation of property portfolio	10/11	**3,109**	(16,423)
Operating profit	4	**17,418**	2,108
Other income		**471**	615
Share of post-tax profits of joint ventures and associates	14(b)	**12,834**	7,682
Income from financial asset		**–**	500
(Loss)/profit from sale of investment		**(250)**	20
Profit/(loss) on sale of other plant and equipment		**34**	(13)
Profit before interest and income tax		**30,507**	10,912
Finance income	6(a)	**2,552**	2,125
Finance costs	6(b)	**(13,532)**	(12,245)
Profit before income tax		**19,527**	792
Income tax	7	**(1,288)**	1,554
Profit for the year		**18,239**	2,346
Profit attributable to:			
Owners of the Parent		**18,236**	2,421
Non-controlling interest		**3**	(75)
		18,239	2,346
Other Comprehensive Income			
Profit for the year		**18,239**	2,346
Items that may be subsequently reclassified to profit or loss:			
Gain/(loss) on valuation of cross-currency interest rate swap	18(c)	**1,798**	(1,024)
Change in value of available-for-sale financial assets		**–**	829
Currency translation differences – Group		**(104)**	–
Deferred income tax (charge)/credit	7/19	**(415)**	45
Total comprehensive income for the year		**19,518**	2,196
Attributable to:			
Owners of the Parent		**19,515**	2,271
Non-controlling interest		**3**	(75)
		19,518	2,196
Basic earnings per share attributable to the Parent*	9	**14.9p**	2.0p
Diluted earnings per share attributable to the Parent*	9	**14.9p**	2.0p

* Adjusted earnings per share from continuing activities is given in note 9.

All amounts in the Consolidated Statement of Comprehensive Income relate to continuing operations.
The notes on pages 91 to 130 are an integral part of these Consolidated financial statements.

Consolidated Balance Sheet

As at 28th February 2014

	Notes	28th February 2014 £'000	28th February 2014 £'000	28th February 2013 £'000	28th February 2013 £'000
Non-current assets					
Direct real estate interests					
Investment properties	10	**159,693**		220,074	
Operating property	11	**680**		740	
Trade and other receivables	16(a)	**7,652**		5,100	
			168,025		225,914
Indirect real estate interests					
Investments in associates	14(a)	**4,276**		4,276	
Investments in joint ventures	14(b)	**31,780**		40,137	
Intangible assets – goodwill	12	**238**		238	
Development participation rights	18(a)	**–**		5,000	
Development loans to joint operations	18(a)	**19,527**		19,163	
Loans to other real estate businesses	18(a)	**8,675**		8,625	
			64,496		77,439
Other non-current assets					
Other plant and equipment	13	**2,797**		3,124	
Deferred income tax assets	19	**362**		1,757	
			3,159		4,881
Total non-current assets			**235,680**		308,234
Current assets					
Inventory – development and trading properties	15	**192,483**		153,416	
Other financial assets	18(a)	**1,700**		1,700	
Trade and other receivables	16(b)	**40,835**		21,643	
Monies held in restricted accounts and deposits		**27,263**		11,527	
Cash and cash equivalents		**40,051**		47,683	
			302,332		235,969
Investment properties held for sale	10		**42,410**		–
Total assets			**580,422**		544,203
Current liabilities					
Trade and other payables	17(b)	**(31,920)**		(24,350)	
Current income tax liabilities		**(413)**		(178)	
Borrowings	18(b)	**(24,674)**		(2,001)	
Provisions for other liabilities and charges	17(c)	**(193)**		(219)	
			(57,200)		(26,748)
Non-current liabilities					
Trade and other payables	17(a)	**(1,500)**		–	
Borrowings	18(b)	**(196,404)**		(203,980)	
Derivative financial instruments	18(c)	**(2,195)**		(3,221)	
Deferred income tax liabilities	19	**–**		(743)	
Provisions for other liabilities and charges	17(c)	**(2,843)**		(2,845)	
			(202,942)		(210,789)
Total liabilities			**(260,142)**		(237,537)
Net assets			**320,280**		306,666
Equity					
Share capital	20	**61,176**		61,176	
Share premium	21	**103,961**		103,961	
Other reserves	21	**41,021**		39,742	
Retained earnings	21	**114,087**		101,731	
Equity attributable to the owners of the Parent			**320,245**		306,610
Non-controlling interest			**35**		56
Total equity			**320,280**		306,666
Basic/diluted net assets per share attributable to the owners of the Parent	9		**262p/262p**		251p/251p

The notes on pages 91 to 130 are an integral part of these Consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 30th April 2014 and signed on its behalf by

M H Marx

Director

Consolidated Statement of Changes in Equity

For the year ended 28th February 2014

	Notes	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000	Non-controlling interest £'000	Total £'000
At 1st March 2012		61,176	103,961	40,063	106,134	311,334	1,908	313,242
Profit/(loss) for the year ended 28th February 2013		–	–	–	2,421	2,421	(75)	2,346
Other comprehensive income:								
– Change in value of available-for-sale financial assets		–	–	829	–	829	–	829
– Gain on valuation of cross-currency interest rate swap	18(c)	–	–	109	–	109	–	109
– Exchange loss on valuation of cross-currency interest rate swap	18(c)	–	–	(1,133)	–	(1,133)	–	(1,133)
– Deferred income tax credited directly to equity	7/19	–	–	45	–	45	–	45
Total comprehensive (loss)/income for the year ended 28th February 2013		–	–	(150)	2,421	2,271	(75)	2,196
Share based payments		–	–	–	21	21	–	21
Purchase of treasury shares	21	–	–	(171)	–	(171)	–	(171)
Final dividend relating to 2012	8	–	–	–	(3,911)	(3,911)	–	(3,911)
Interim dividend relating to 2013	8	–	–	–	(2,934)	(2,934)	–	(2,934)
Total contributions by and distributions to owners of the Company		–	–	(171)	(6,824)	(6,995)	–	(6,995)
Transactions with non-controlling interest		–	–	–	–	–	(1,777)	(1,777)
Balance at 28th February 2013		61,176	103,961	39,742	101,731	306,610	56	306,666
Profit for the year ended 28th February 2014		–	–	–	18,236	18,236	3	18,239
Other comprehensive income:								
– Gain on valuation of cross-currency interest rate swap	18(c)	–	–	73	–	73	–	73
– Exchange gain on valuation of cross-currency interest rate swap	18(c)	–	–	1,725	–	1,725	–	1,725
– Currency translation differences – Group		–	–	(104)	–	(104)	–	(104)
– Deferred income tax charged directly to equity	7/19	–	–	(415)	–	(415)	–	(415)
Total comprehensive income for the year ended 28th February 2014		**–**	**–**	**1,279**	**18,236**	**19,515**	**3**	**19,518**
Share based payments		–	–	–	(12)	(12)	–	(12)
Final dividend relating to 2013	8	–	–	–	(2,934)	(2,934)	–	(2,934)
Interim dividend relating to 2014	8	–	–	–	(2,934)	(2,934)	–	(2,934)
Total contributions by and distributions to owners of the Company		–	–	–	(5,880)	(5,880)	–	(5,880)
Transactions with non-controlling interest		–	–	–	–	–	(24)	(24)
Balance at 28th February 2014		**61,176**	**103,961**	**41,021**	**114,087**	**320,245**	**35**	**320,280**

The notes on pages 91 to 130 are an integral part of these Consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 28th February 2014

	Notes	Year ended 28th February 2014 £'000	Year ended 28th February 2013 £'000
Cash generated from operations			
Cash flows (used in)/generated from operating activities	22	**(32,527)**	36,818
Interest paid		**(12,742)**	(12,344)
Income tax paid		**(817)**	(164)
Net cash (used in)/generated from operating activities		**(46,086)**	24,310
Cash flows from investing activities			
Interest received		**405**	1,007
Proceeds on disposal of other plant and equipment		**53**	40
Proceeds on disposal of investment properties		**27,712**	295
Purchase of other plant and equipment		**(395)**	(403)
Purchase of investment properties		**(10,694)**	(2,912)
Cash outflow to joint ventures and associates		**(8,377)**	(15,728)
Cash inflow from joint ventures and associates		**33,450**	7,988
Investment in financial assets		**(3,032)**	(10,988)
Cash inflow from financial assets		**5,000**	12,989
Net cash generated from/(used in) investing activities		**44,122**	(7,712)
Cash flows from financing activities			
Dividends paid		**(5,868)**	(6,845)
Purchase of treasury shares		**–**	(171)
Repayments of borrowings		**(3,330)**	(21,167)
New bank loans raised (net of transaction costs)		**19,685**	23,259
Equity repayment from non-controlling interest		**(24)**	(1,572)
(Increase)/decrease in monies held in restricted accounts and deposits		**(15,736)**	3,068
Net cash used in financing activities		**(5,273)**	(3,428)
Net (decrease)/increase in cash and cash equivalents		**(7,237)**	13,170
Cash and cash equivalents at the beginning of the year		**47,683**	34,401
Exchange (losses)/gains on cash and cash equivalents		**(395)**	112
Cash and cash equivalents at the end of the year		**40,051**	47,683
Cash and cash equivalents comprise:			
Cash at bank and in hand		**40,051**	47,683
Bank overdrafts	18(b)	**–**	–
Cash and cash equivalents at the end of the year		**40,051**	47,683

		28th February 2014 £'000	28th February 2013 £'000
Net debt comprises:			
Monies held in restricted accounts and deposits		**27,263**	11,527
Cash and cash equivalents		**40,051**	47,683
Financial liabilities:			
– Current borrowings	18(b)	**(24,674)**	(2,001)
– Non-current borrowings	18(b)	**(196,404)**	(203,980)
Net debt		**(153,764)**	(146,771)

The notes on pages 91 to 130 are an integral part of these Consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 28th February 2014

1 Basis of preparation and accounting policies

a)

(i) General information

The Consolidated financial statements of the Group for the year ended 28th February 2014 comprise the results of the Company and its subsidiaries and were authorised by the Board for issue on 30th April 2014.

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the UK. The address of its registered office is Portland House, Bressenden Place, London, SW1E 5DS.

(ii) Going concern

The Group adopts the going concern basis in preparing its Consolidated financial statements as discussed in the Financial Review on pages 42 to 48.

b) Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union as they apply to the financial statements of the Group for the year ended 28th February 2014 and applied in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS. The accounting policies which follow set out those policies which were applied consistently in preparing the financial statements for the year ended 28th February 2014 and 28th February 2013.

The Consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of investment property, operating property, available-for-sale financial assets and derivative instruments at fair value through profit and loss.

c) Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, assumptions and estimates that affect the application of accounting policies and amounts reported in the Statement of Comprehensive Income and the Balance Sheet. Such decisions are made at the time the financial statements are prepared and adopted based on the best information available. Actual outcomes may be different from initial estimates and are reflected in the financial statements as soon as they become apparent.

Judgements other than estimates

1.1 Classification of directly owned property assets

The Group earns revenue from property development, trading and investment, and from operating serviced offices.

Property development includes the entire development process from identification of an opportunity through to construction, letting and sale of a completed scheme. This activity is undertaken both on the Group's own Balance Sheet and in partnership with institutional investors, usually via a pre-sale of the completed development.

Property trading refers to participation in the development process, where the Group acquires an interest in land and enhances the potential development, for instance by procuring or changing planning permission, before selling on to a third party to complete the development.

Property investment represents the acquisition of income-generating real estate which is held for the purposes of income and capital gain, through active asset management.

In most cases the property interest is held directly by the Group and is classified either as investment property (see note 10) or as inventory for development and trading properties (see note 15).

The varied nature of the Group's properties is such that a number exhibit characteristics consistent with more than one classification; also, the Directors' strategy for an asset may change during its ownership. The Directors determine the status of each asset according to their intention on acquisition. A change in classification is made only in exceptional circumstances, where the strategy has demonstrably changed for a period of over one year. One asset has been reclassified from development to trading assets during the year following the completion of the development works.

1.2 Classification of projects in partnership

In addition to its directly owned and managed activities, the Group participates in similar activities in partnership with others, typically to access expertise in different locations or market sectors. The Group's financial participation may be by way of equity investment or loan. In each case a judgement is required as to the status of the Group's interest, as an associate, a joint venture, joint operation or a financial asset, typically focusing on the extent of control exercised by the Group.

The Group's share of control is governed and achieved by a mixture of rights set out in agreements and participation in the management of each business. The exercise of control in practice does not always follow the legal structure. The Directors have considered the position in respect of each venture, taking account of the operation in practice, and have determined the status of each accordingly.

These investments are reported under the relevant balance sheet headings, with a summary in note 27.

The IASB has issued IFRS 10 'Consolidated Financial Statements' and IFRS 11 'Joint Arrangements', which will amend and clarify the guidance in this area, and is likely to result in some changes to the current classification. The Directors are conducting a detailed review of the new standards and their application to the Group's arrangements. Any changes in accounting policies or classifications will be adopted in accordance with the standard in the year commencing 1st March 2014.

1.3 Acquisition of subsidiaries

The Group sometimes acquires properties through the purchase of entities which own real estate. At the time of acquisition the Group considers whether the transaction represents the acquisition of a business. In cases where the entity is capable of being operated as a business, or an integrated set of activities is acquired in addition to the property, the Group accounts for the acquisition as a business combination. When the acquisition does not represent a business, it is accounted for as the purchase of a group of assets and liabilities. In making this distinction, the Group considers the number of items of land and buildings owned by the entity, the extent of ancillary services provided by the entity, and whether the entity has its own staff to manage the property (over and above the maintenance and security of the premises).

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

1 Basis of preparation and accounting policies continued

1.4 Accounting for pre-sold development assets

Where development is undertaken on the Group's Balance Sheet under a contract for a pre-sale, a judgement is required as to whether this represents a sale of property or a contract for construction as described in note 1(h)(vi). The development at Lawley has been classified as a construction contract (under IAS 11), whereby revenue is reported in line with construction progress. The amounts concerned are set out in note 3.

Estimates

1.5 Valuation of property assets

The key source of estimation uncertainty rests in the values of property assets, which affects several categories of asset in the Balance Sheet.

The investment property portfolio (and the operating property) are stated at fair value, which requires a number of judgements and estimates in assessing the qualities of the Group's assets relative to market transactions. The approach to this valuation and the amounts affected are set out in notes 1(i), 1(j), 10 and 11. In determining fair value, the capitalisation of net income method and the discounted cash flow method have been used, which are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rate, and make reference to market evidence of transaction prices for similar properties.

The same uncertainties affect the determination of fair value of certain available-for-sale financial instruments, described in note 18, with the further complexity that the value of these assets requires estimates of future construction costs, tenant demand and market yields.

The Group's development and trading properties are carried at the lower of cost and net realisable value. The determination of net realisable value relies upon similar estimates, with the added challenge, in some cases, of judgements about uncertain planning outcomes. These amounts are disclosed in note 15.

1.6 Impairment reviews

The Group's Curzon Park Limited joint venture owns a development site in Birmingham known as Curzon Street. The current proposal for the High Speed Train Link between London and Birmingham (HS2) indicates that the planned route of HS2 passes through the site, including provision for part of the prospective station. In view of this, the ultimate value of the site is uncertain. The early indications are that the impact of HS2 may restrict future development on the 10.5-acre site by approximately two thirds of its original potential. The Group has (jointly) guaranteed the liabilities of the joint venture to the bank, and hence should the value of the site (together with any compensation received) be insufficient to repay the amortising bank loan, the Group may incur further charges in respect of its obligations to the joint venture and the bank. The Directors believe that the site will recover at least its carrying value in the books of the joint venture, although the interim and ultimate uses of the site and timing of its development remain unclear. The site is discussed in the Chief Executive's Statement on page 6 and in notes 18(a) and 24.

In view of operating losses at Executive Communication Centres (ECC), the Group's serviced office subsidiary, the Group has conducted an impairment review of its investment in the business. The review required significant judgements and estimates concerning future customer demand and competitor behaviour, as well as discount rates. The review determined that no further impairment arose during the year.

The Group, through its subsidiaries and a joint venture, has participated in the acquisition of loan portfolios which are secured against underlying property investment or development assets. The loan portfolios are initially recognised at fair value and subsequently carried at the lower of amortised cost using the effective interest rate method and are reviewed for impairment at each reporting date. In assessing the effective interest rate applied and the recoverable amount, the Group applies significant judgements in considering the realisable value of the underlying assets which secure those loans and timing of the loan repayment. This review determined that no provision for impairment is required.

1.7 Derivative instruments

The Group is party to a number of interest rate swap and foreign currency agreements which are accounted for as derivatives and measured at fair value. The estimation of this figure is based upon market assumptions about future movements in interest and exchange rates. The estimated fair values and the movements in the year are set out in note 18.

d) New accounting standards

The following standards have been adopted by the Group for the first time for the financial year beginning on 1st March 2013 and have a material impact on the Group.

- IAS 1, 'Presentation of Financial Statements', regarding other comprehensive income. The main change resulting from these amendments is for entities to group items presented in Other Comprehensive Income (OCI) on the basis that they could potentially be recycled through profit and loss at a future point in time (for example, upon derecognition or settlement).
- IFRS 13, 'Fair Value Measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1st March 2013 and have not been applied in preparing these Consolidated financial statements. None of these are expected to have a significant impact on Group's operations.

- IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces parts of IAS 39. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition and will depend on characteristics of the instrument. For financial liabilities, the main change from IAS 39 is where the fair value option is taken for financial liabilities, the part of the fair value change due to an entity's own credit risk is recorded in Other Comprehensive Income rather than the Income Statement, unless it creates an accounting mismatch. The Group is yet to assess the full impact of IFRS 9.

- IFRS 10, 'Consolidated Financial Statements', builds on the existing principles by identifying the concept of control to determine whether an entity should be included within the Consolidated financial statements of the Group. IFRS 10 will provide guidance to assist management in the determination of control where it is difficult to assess. The Group has been assessing the impact on the Consolidated financial statements and will adopt the standard for the accounting period commencing 1st March 2014.
- IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than the legal form. There are two types of joint arrangement: joint ventures and joint operations. Joint operations arise where the investors have rights to the assets and obligations of the joint arrangements and therefore the operator will account for its share of the assets, liabilities, revenues and expenses. Joint ventures arise when the investors have rights to the net assets of the arrangement and are accounted for under the method. The Group has been assessing the impact on the Consolidated financial statements and will adopt the standard for the accounting period commencing 1st March 2014.
- IFRS 12, 'Disclosure of Interests in Other Entities', includes the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates, special purpose vehicles and other off Balance Sheet vehicles. The Group has been assessing the impact on the Consolidated financial statements and will adopt the standard for the accounting period commencing 1st March 2014.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Summary of significant accounting policies

e) Basis of consolidation

The Consolidated financial statements of the Group include the financial statements of Development Securities PLC ('the Company') and its subsidiaries.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying the shareholding of more than half of the voting rights. The Group deems control where it does not have more than 50 per cent of the voting power but is able to govern the financial and operating policies by virtue of de-facto control, taking account of how the entity operates in practice.

The results of subsidiaries acquired during the year are included from the effective date of acquisition, being the date on which the Group obtains control. They are deconsolidated on the date that control ceases.

Where property is acquired, via corporate acquisition or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The basis of the judgement is set out in note 1(c), 1.3.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, acquisitions are accounted for as business combinations. Business combinations are accounted for under the acquisition method. Any excess of the purchase price of the business combination over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held interest in the acquiree is re-measured to fair value at the acquisition date. Any gains or losses arising from re-measurement are recognised in profit or loss.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. This fair value includes any contingent consideration. Acquisition-related costs are expensed as incurred.

The Group recognises any non-controlling interest on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the identifiable net assets acquired.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the Consolidated financial statements. Where necessary, adjustments have been made to the financial statements of subsidiaries, associates and joint ventures to bring the accounting policies used and accounting periods into line with those of the Group.

f) Associates and joint ventures

An associated company is defined as an undertaking other than a subsidiary or joint venture over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 and 50 per cent of the voting rights. Investments in associates are accounted using the equity method of accounting. The Group's investment in associates includes goodwill identified on acquisition.

A joint venture is defined as an undertaking other than a subsidiary or associated undertaking where the Group has joint control with two or more venturers under a contractual arrangement. Joint ventures are accounted for using the equity method.

Under the equity method, the interest in associates or joint ventures is carried in the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of individual investments. The Statement of Comprehensive Income reflects the Group's share of the associate's or joint venture's result after tax. When the Group's share of losses in an associate or joint venture equals or exceeds the Group's interest, including any unsecured receivables, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate or joint venture. The Group does not recognise net losses unless it has incurred constructive or legal obligations or made payments on behalf of the associate or joint venture.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

1 Basis of preparation and accounting policies continued

g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in Intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

(ii) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Prior impairment of non-financial assets, other than goodwill, are reviewed for possible reversal at each reporting date.

h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Group recognises revenue when the amount of the revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when the specific criteria have been met for each of the Group's activities as described below.

(i) Rental income is recognised on a straight-line basis over the term of the lease. Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at inception of the lease, the Directors are reasonably certain that the tenant will exercise that option. Lease incentives are usually in the form of rent-free periods or capital contributions. Assets held within both the investment and development and trading segments earn rental income.

(ii) Lease surrender payments from tenants are recognised in income when they are contractually agreed.

(iii) Sales of property classified as Inventory are recognised when the risks and rewards of ownership have been transferred to the purchaser, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all of the significant conditions are satisfied.

(iv) Licence fee income from serviced offices is recognised on a straight-line basis over the term of the licence. Other income from serviced offices is recognised when the service is provided. The income is classified within the operating segment.

(v) Project management fee income is recognised on a straight-line basis over the contract term for which project management services are provided.

(vi) Development revenue and profits are recognised in accordance with IAS 11, 'Construction contracts' or IAS 18, 'Revenue' depending on whether all development risks, apart from the construction risk, have passed to the purchaser under the terms of the development agreement.
Where only the construction risk remains, the revenue and profit on the development is recognised under IAS 11, so as to match the proportion of development work completed on a percentage completion basis as determined by consultant monitoring surveyors or using a suitable method particular to the contract concerned. Profits are only recognised where the outcome can be determined with reasonable certainty. Full provision is made for losses as soon as such losses are foreseen. Where revenue and profit is recognised under IAS 18, disposals are recognised where the risks and rewards of ownership are considered to have been transferred to the purchaser.
Profits are recognised within the development and trading segment.

(vii) Income from investment in property secured loans relates to gains from recovery of the loan in excess of its acquisition amount where, under the terms of the loan agreement, the Group has the power to instruct the sale of the underlying property assets, retaining the disposal proceeds to repay the loan. The income is recognised as Other property income by reference to the loan principal outstanding using the effective interest method.

(viii) Finance income is recognised by reference to the principal outstanding using the effective interest method and is included in Finance income in the Statement of Comprehensive Income.

(ix) Dividend income from investments is recognised when the Group's right to receive income has been established.

i) Investment properties

(i) Investment properties are those properties, including land holdings, that are held either to earn rental income or for capital appreciation or both. Investment properties may be freehold or leasehold properties. For leasehold properties that are classified as investment properties, the associated leasehold obligations are accounted for as finance lease obligations if they qualify to be treated as such.

(ii) Investment properties are measured initially at cost, including directly attributable transaction costs, and thereafter are stated at fair value. Surpluses and deficits arising from changes in the fair value of investment properties are recognised in the Statement of Comprehensive Income in the year in which they arise.

(iii) Completed investment properties are valued, at each reporting date, by independent valuers on the basis of market value in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. Fair value is assessed as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. A deduction is made to reflect purchaser's acquisition costs. In determining the fair value, the capitalisation of net income method and the discounting of future cash flows to their present value have been used, which are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rate, and make reference to market evidence of transaction prices for similar properties.

(iv) Investment properties under construction are valued by the Directors on the basis of the expected value of the property when complete, less deductions for the costs required to complete the project and appropriate adjustments for risk and finance costs. In preparing these valuations the Directors consult with agents and other advisors to derive appropriate assumptions specific to each asset.

(v) Gains or losses on disposal of investment properties are calculated by reference to carrying value and recognised when the risks and rewards of ownership are considered to have passed to the purchaser, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all of the significant conditions are satisfied. Gains and losses are recognised within Gains or losses on disposal of investment properties in the Statement of Comprehensive Income.

(vi) Investment properties held for sale are held at fair value and classified separately within current assets in the Balance Sheet. They are stated at the lower of carrying amount and fair value less costs to sell.

j) Property, plant and equipment

(i) Operating properties – serviced offices

Operating properties are held for business purposes rather than for investment, generating revenue by way of licence fees and ancillary services. These properties are recognised initially at cost, which includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Thereafter the asset is carried at valuation less depreciation and impairment charged subsequent to the date of revaluation. A revaluation surplus is credited to Other comprehensive income and accumulated in equity under the heading of Property revaluation reserve, unless it reverses a revaluation decrease on the same asset previously recognised as an expense, where it is first credited to the Statement of Comprehensive Income to that extent.

Operating properties are valued at each reporting date by independent, professional valuers on the basis of Existing Use Value. Surpluses and deficits in the period are included in the Property revaluation reserve within equity, except where carrying value is below depreciated cost, in which case surpluses and deficits are included in the Statement of Comprehensive Income. Depreciation is provided so as to write off the value of the properties, excluding land, over their expected useful lives, usually 25 years.

(ii) Other plant and equipment

Other plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Cost includes expenditure that is directly attributable to the acquisition of the assets. Depreciation is provided so as to write off the cost less estimated residual value of the assets over their expected useful lives on a straight-line method. The principal annual rates used for this purpose are as follows:

Fixtures and fittings and computer equipment	– 10% to 33%
Motor vehicles	– 20%

The assets' residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the net proceeds with the carrying amount and are recognised within Other gains and losses in the Statement of Comprehensive Income.

k) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rents payable under operating leases, net of any incentives received from the lessor, are charged in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

l) Inventory – development and trading properties

Property and development interests acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, are held as inventory and are measured at the lower of cost and estimated net realisable value.

Cost includes directly attributable expenditure and interest. No element of overhead is included in cost, since it is not practical to identify overhead amounts in respect of particular assets. Where the Directors consider that the costs are not recoverable from the sale or development of the asset, the project or site is written down to its net realisable value, with the write-down taken to the Statement of Comprehensive Income.

Net realisable value is calculated as the estimated selling price of the project or site, based upon the current plans, less all further costs to be incurred in making the sale.

m) Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in Other comprehensive income or directly in equity. In this case the tax is also recognised in Other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date, together with any adjustment in respect of previous years, in the jurisdiction where the Company and its subsidiaries operate and generate taxable income. Appropriate provisions are made based on the amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date, with the following exceptions:

- Where the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates where the timing of the reversal of the temporary difference can be controlled by the parent, venture or investor respectively, and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

1 Basis of preparation and accounting policies continued

m) Current and deferred income tax continued

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

n) Financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual terms of the instrument.

(i) Financial assets

The Group determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the financial assets were acquired as follows:

- Loans and other receivables with fixed or determinable payments that are not quoted on an active market. The Group's loans and receivables are included within Trade and other receivables, Cash and cash equivalents, Monies held in restricted accounts and deposits and Other financial assets in the Consolidated Balance Sheet.
- Financial assets at fair value through profit or loss. This represents interest and currency swaps which are categorised as held for trading unless they are designated as hedges.
- Available-for-sale financial assets are non-derivatives that are designated as such or are not classified in any other category. After initial recognition at cost, available-for-sale assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the Statement of Comprehensive Income. Equity instrument financial assets are held at cost in the event that the fair value of the instruments is not reliably measurable.

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote. Subsequent recoveries of amounts previously written off are credited against the appropriate cost line in the Statement of Comprehensive Income.

Loans and receivables include bank loans acquired which are secured against underlying investment or development assets. The loans acquired are recognised and carried at the lower of cost or recoverable amount. Amounts receivable are reviewed for impairment and a provision is made where there is evidence that the Group will not be able to recover the loan in full. Any gains or losses are recognised in a separate component within the Statement of Comprehensive Income.

Amounts due from customers for contract work are included in Trade and other receivables and represent revenue recognised in excess of payments on account received.

Monies held in restricted accounts and deposits represent cash held by the Group in accounts with conditions that restrict the use of these monies by the Group and, as such, does not meet the definition of Cash and cash equivalents as defined in IAS 7, 'Statement of Cash Flows'.

Cash and cash equivalents comprise deposits held at call with banks and other short-term highly liquid investments with no significant risk of changes in value. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a financial liability. For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents are stated net of outstanding bank overdrafts.

Financial assets are included within current assets except for assets maturing after one year, which will be classified as non-current.

Financial assets are assessed for impairment at each reporting date. Assets are impaired where there is evidence that as a result of events that occurred after initial recognition, the estimated future cash flows from the assets have been adversely affected. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Statement of Comprehensive Income. If, in a subsequent period, the amount of the impairment decreases, the reversal of the previously recognised impairment is recognised in the Statement of Comprehensive Income.

(ii) Financial liabilities

Loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in Finance income and Finance costs.

Other financial liabilities, including trade and other payables, are initially recognised at fair value and subsequently at amortised cost and are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Amounts due to customers for contract work is included within Trade and other payables and represents payments received in advance from customers.

(iii) Derivatives

The Group enters into derivative financial instruments, including interest rate swaps, caps and collars and cross-currency swaps, to manage its exposure to interest rate and foreign exchange rate risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as an effective hedging instrument, in which case the fair value is taken through Other Comprehensive Income.

(iv) Hedging

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than twelve months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than twelve months. At the inception of the hedge relationship the Group documents the

relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

The Group has designated derivatives as cash flow hedges, in which case the effective portion of changes in the fair value of the hedging instrument is recognised in Other comprehensive income. The gain or loss relating to an ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts taken to equity are recycled to the Statement of Comprehensive Income in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship or the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

o) Borrowing costs

Gross borrowing costs relating to direct expenditure on investment properties and inventories under development are capitalised. The interest capitalised is calculated using the rate of interest on the loan to fund the expenditure, or the Group's weighted average cost of borrowings where appropriate, over the period from commencement of the development work until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted.

Capitalised interest is written off to direct costs on disposal of inventory or to operating profit on disposal of investment properties.

Other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Fees paid on establishment of loan facilities are capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates. All other borrowing costs are recognised in the Statement of Comprehensive Income in the period in which they are incurred.

p) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Onerous lease provisions are created for properties that are unoccupied, sublet at below the rent payable on the head lease or for operating sites where the projected future trading revenue is insufficient to cover the value in use.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation. The amortisation in the discount is recognised as an interest expense.

q) Employee benefits

(i) Pensions

The Group operates a defined contribution scheme whereby the Group pays fixed contributions into a pension fund. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees relating to employee service in the current or prior periods. The charge to the Statement of Comprehensive Income in the year represents the actual amount payable to the scheme in the year. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the Balance Sheet.

(ii) Profit-sharing and bonus plans

The Group recognises a liability and expense for bonus and profit-sharing in accordance with the bonus plans outlined in the Remuneration Report on pages 66 to 83. The Group recognises a liability when contractually obliged.

r) Foreign currencies

The Consolidated financial statements of the Group are presented in UK Sterling, the Company's functional and presentation currency. Transactions denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Exchange movements are dealt with in the Statement of Comprehensive Income, with exchange differences on borrowings taken to Finance income or Finance costs, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

s) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

t) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new Ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where a Group company purchases its own share capital out of distributable reserves the shares can be held as Treasury shares. The shares are carried at the consideration paid including any directly attributable costs of acquiring the shares. The value of the shares is deducted from the equity attributable to the Company's equity holders until the shares are cancelled or reissued. If the shares are subsequently reissued, their value is reattributed to the Company's equity holders.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

1 Basis of preparation and accounting policies continued

u) Share-based payments

The Group operates a number of share-based compensation plans, the majority of which are cash-settled, under which the entity receives services from employees as consideration for cash-settled instruments of the Group.

The fair value of the employee services received in exchange for the grant of the option is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

The Group has used a Black-Scholes option valuation model to determine the fair value of share options granted. An equal probability model has been used to determine the fair value of share awards under the Performance Share Plan. The cost of cash-settled transactions with employees and Directors is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of cash-settled share-based instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above.
The movement in cumulative expense since the previous balance sheet date is recognised in the Statement of Comprehensive Income, with a corresponding entry in accruals.

v) Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the year in which the dividends are approved by the Company's shareholders.

w) Definitions

Operating profit: stated after gain on disposal of investment properties and the revaluation of the Investment property portfolio and before the results of associates, jointly controlled entities and finance income and costs.

IPD Index and Total Portfolio Return: total return from the completed investment property portfolio, comprising net rental income or expenditure, capital gains or losses from disposals and revaluation surpluses or deficits, divided by the average capital employed during the financial year, as defined and measured by Investment Property Databank Limited, a company that produces independent benchmarks of property returns.

Total Shareholder Return: movement in share price over the year plus dividends paid as a percentage of the opening share price.

Gearing: expressed as a percentage, is measured as net debt divided by total shareholders' funds.

Adjusted gearing: expressed as a percentage, is calculated by deducting from net debt the current fair value of the subordinated loan notes and adding back relevant restricted cash balances and transaction costs.

Loan to value gearing: expressed as a percentage of net debt as a proportion of total property assets, including shares of properties and net debt in all projects in partnership.

Net debt: total debt less cash and short-term deposits, including cash held in restricted accounts.

2 Segmental analysis

The segmental information presented consistently follows the information provided to the Chief Operating Decision-Maker (CODM) and reflects the three sectors in which the Group operates. The CODM, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board. The three operating divisions are:

- Investment – management of the Group's investment property portfolio, generating rental income and valuation surpluses from property management;
- Development and trading – managing the Group's development and trading projects. Revenue is received from project management fees, development profits and the disposal of inventory; and
- Operating – serviced office operations. Revenue is principally received from short-term licence fee income.

Unallocated assets and liabilities comprise amounts that cannot be specifically allocated to operating segments; an analysis is provided below.

These divisions are the basis on which the Group reports its primary segmental information. All operations occur and all assets are located in the United Kingdom, except assets of £3.2 million which are located in the Republic of Ireland. All revenue arises from continuing operations.

				Year ended 28th February 2014
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Segment revenue	15,054	60,147	4,142	79,343
Direct costs	(2,649)	(43,723)	(5,172)	(51,544)
Segment result	12,405	16,424	(1,030)	27,799
Operating costs	(4,886)	(9,143)	–	(14,029)
Gain on disposal on investment properties	539	–	–	539
Gain on revaluation of property portfolio	3,104	–	5	3,109
Operating profit/(loss)	11,162	7,281	(1,025)	17,418
Other income	286	185	–	471
Share of post-tax profits of joint ventures and associates	5,308	7,526	–	12,834
Loss on sale of investment	–	(250)	–	(250)
Unallocated profit on sale of other plant and equipment				34
Profit before interest and income tax				30,507
Finance income	1,205	1,347	–	2,552
Finance costs	(7,698)	(5,834)	–	(13,532)
Profit before income tax				19,527
Income tax				(1,288)
Profit for the year				18,239
Assets and liabilities				
Segment assets	252,766	291,995	4,667	549,428
Unallocated assets				30,994
Total assets				580,422
Segment liabilities	(168,447)	(81,454)	(3,667)	(253,568)
Unallocated liabilities				(6,574)
Total liabilities				(260,142)

A summary of unallocated assets and liabilities is shown on page 101.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

2 Segmental analysis continued

	Year ended 28th February 2014			
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Other segment information				
Capital expenditure	11,674	81	297	12,052
Unallocated capital expenditure				17
Impairment of assets	–	(232)	–	(232)
Depreciation	–	(123)	(418)	(541)
Unallocated depreciation				(227)
Revenue				
Rental income	14,985	3,664	–	18,649
Serviced office income	–	–	4,142	4,142
Project management fees	–	566	–	566
Trading property sales	–	20,608	–	20,608
Other trading property income	–	2,846	–	2,846
Construction contract revenue	–	8,040	–	8,040
Development proceeds	–	24,423	–	24,423
Other	69	–	–	69
	15,054	60,147	4,142	79,343

In the year ended 28th February 2014, two transactions with turnover totalling £20,688,000 generated in excess of 10.0 per cent of total revenue and fell within the development and trading segment.

	Year ended 28th February 2013			
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Segment revenue	16,080	79,711	3,877	99,668
Direct costs	(3,978)	(59,986)	(5,025)	(68,989)
Segment result	12,102	19,725	(1,148)	30,679
Operating costs	(4,005)	(9,007)	–	(13,012)
Gain on disposal on investment properties	864	–	–	864
Loss on revaluation of property portfolio	(16,328)	–	(95)	(16,423)
Operating (loss)/profit	(7,367)	10,718	(1,243)	2,108
Other income	465	150	–	615
Share of post-tax profits of joint ventures and associates	2,835	4,847	–	7,682
Income from financial asset	–	500	–	500
Profit on sale of investment	–	20	–	20
Unallocated loss on sale of other plant and equipment				(13)
Profit before interest and income tax				10,912
Finance income	1,023	1,102	–	2,125
Finance costs	(8,889)	(3,356)	–	(12,245)
Profit before income tax				792
Income tax				1,554
Profit for the year				2,346
Assets and liabilities				
Segment assets	268,903	237,604	4,476	510,983
Unallocated assets				33,220
Total assets				544,203
Segment liabilities	(152,365)	(73,895)	(3,526)	(229,786)
Unallocated liabilities				(7,751)
Total liabilities				(237,537)

A summary of unallocated assets and liabilities is shown on page 101.

	Year ended 28th February 2013			
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Other segment information				
Capital expenditure	2,409	191	156	2,756
Unallocated capital expenditure				56
Impairment of assets	–	(2,246)	–	(2,246)
Depreciation	–	(123)	(365)	(488)
Unallocated depreciation				(249)
Revenue				
Rental income	16,032	2,619	–	18,651
Serviced office income	–	–	3,877	3,877
Project management fees	–	823	–	823
Trading property sales	–	24,389	–	24,389
Other trading property income	–	2,659	–	2,659
Construction contract revenue	–	7,960	–	7,960
Development proceeds	–	27,562	–	27,562
Other property income	–	13,699	–	13,699
Other	48	–	–	48
	16,080	79,711	3,877	99,668

In the year ended 28th February 2013, one transaction with turnover totalling £12,500,000 generated in excess of 10.0 per cent of total revenue and fell within the development and trading segment.

	28th February 2014 £'000	28th February 2013 £'000
Unallocated assets can be analysed as follows:		
Other plant and equipment	**411**	626
Deferred income tax asset	**362**	1,757
Trade and other receivables	**7,912**	4,506
Cash and cash equivalents	**22,309**	26,331
	30,994	33,220
Unallocated liabilities can be analysed as follows:		
Current borrowings	**(17)**	(17)
Trade and other payables	**(4,362)**	(3,770)
Deferred income tax liability	**–**	(743)
Derivative financial instruments	**(2,195)**	(3,221)
	(6,574)	(7,751)

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

3 Construction contract revenue

Revenue related to construction contracts amounted to £8,040,000 (28th February 2013: £7,960,000) and is included within development and trading segment revenue (refer note 2) and represented 10.1 per cent (28th February 2013: 8.0 per cent) of Group revenues.

The amount shown in Trade and other receivables in the Balance Sheet represents the final amount due from the purchaser under the construction contract. The amount shown in Trade and other payables represents the outstanding sums payable to contractors.

	Year ended 28th February 2014 £'000	Year ended 28th February 2013 £'000
Construction contract assets	**605**	200
Construction contract liabilities	**–**	(241)
Construction contract net assets/(liabilities)	**605**	(41)
This amount corresponds to:		
Aggregate costs incurred	**7,452**	16,168
Recognised profits	**588**	4,220
	8,040	20,388
Progress billings	**(7,435)**	(20,429)
Construction contract net assets/(liabilities)	**605**	(41)

4 Operating profit

	Year ended 28th February 2014 £'000	Year ended 28th February 2013 £'000
Operating profit is stated after charging/(crediting):		
Share-based payments (credit)/expense	**(144)**	21
Cost of sales of development and trading properties recognised in direct costs	**11,855**	22,343
Goodwill realised on disposal of development asset	**–**	1,030
Write-down of development and trading properties to net realisable value	**232**	2,246
Depreciation: – Operating property	**65**	65
– Other plant and equipment	**703**	672
Impairment of trade receivables recognised in direct costs	**183**	398
Auditors' remuneration		
Fees payable to the Company's auditor and its associates for the audit of Company and Group financial statements	**181**	212
Fees payable for the audit of the Company's auditor and its associates for other services:		
– The audit of the Company's subsidiaries	**305**	271
– Half year review procedures	**43**	43
– Tax services	**247**	162
– All other services	**–**	19
	776	707
Fees in respect of the Development Securities PLC pension scheme:		
– Audit	**2**	2
– All other services	**–**	–
	2	2

5 Employees

Employee benefit expense	Year ended 28th February 2014 £'000	Year ended 28th February 2013 £'000
Wages and salaries	**7,105**	6,309
Social security costs	**888**	786
Cost of employee share option schemes	**(144)**	21
Other pension costs – defined contribution plans	**616**	589
	8,465	7,705

Average monthly number of employees, including Directors employed	Year ended 28th February 2014 Number	Year ended 28th February 2013 Number
Property development and investment	**50**	50
Operating property activities	**29**	28
	79	78

The Directors are considered to be the only key management personnel. Their remuneration is shown in the Remuneration Report on pages 66 to 83.

6 Finance income and costs

a) Finance income	Year ended 28th February 2014 £'000	Year ended 28th February 2013 £'000
Interest receivable on loans and deposits	**1,377**	1,742
Other finance income	**222**	271
Fair value gains on financial instruments – interest rate swaps, caps and collars	**953**	–
Net foreign currency differences arising on retranslation of cash and cash equivalents	**–**	112
Total finance income	**2,552**	2,125

b) Finance costs	Year ended 28th February 2014 £'000	Year ended 28th February 2013 £'000
Interest on bank loans and other borrowings	**(10,370)**	(9,905)
Interest on debenture	**(2,200)**	(2,200)
Amortisation of transaction costs	**(606)**	(808)
Provision: unwinding of discount	**(116)**	–
Fair value loss on financial instruments – interest rate swaps, caps and collars	**–**	(860)
Net foreign currency differences arising on retranslation of cash and cash equivalents	**(291)**	–
	(13,583)	(13,773)
Capitalised interest on development and trading properties	**51**	1,528
Total finance costs	**(13,532)**	(12,245)
Net finance costs	**(10,980)**	(10,120)

Interest was capitalised at an average rate of 5.77 per cent. Capitalised interest of £63,000 (28th February 2013: £622,000) was written off in the year. The tax treatment of capitalised interest follows the accounting treatment.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

7 Taxation

	Year ended 28th February 2014 £'000	Year ended 28th February 2013 £'000
Current tax	**1,127**	121
Adjustment in respect of prior years	**(76)**	(706)
Total current tax charge/(credit)	**1,051**	(585)
Deferred tax charge/(credit)	**237**	(969)
Income tax charge/(credit)	**1,288**	(1,554)

	Year ended 28th February 2014 £'000	Year ended 28th February 2013 £'000
Tax on items credited to equity:		
Deferred tax charge/(credit) on other revaluations	**415**	(45)
Total charge/(credit) in the Statement of Comprehensive Income	**415**	(45)

Tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended 28th February 2014 £'000	Year ended 28th February 2013 £'000
Profit before tax	**19,527**	792
Tax on profit on ordinary activities at 23.1% (28th February 2013: 24.2%)	**4,508**	191
Tax effects of:		
Amounts not deductible for tax purposes	**2,185**	2,322
Non-taxable capital gains	**(1,941)**	–
Notional gains recognised on property transactions in the year	**(1,057)**	–
Adjustment in respect of prior years	**(1,570)**	(491)
Indexation allowance	**–**	(681)
Impact on change in UK tax rate	**93**	(54)
Income tax at lower rates	**22**	(20)
Brought forward losses utilised	**(952)**	(2,821)
Total tax charge/(credit)	**1,288**	(1,554)

Deferred tax is calculated in full on the temporary differences under the liability method using the tax rate of 20.0 per cent.

8 Dividends

	Year ended 28th February 2014 £'000	Year ended 28th February 2013 £'000
Declared and paid during the year		
Equity dividends on Ordinary shares:		
Final dividend for 2013: 2.40 pence per share (2012: 3.20 pence per share)	**2,934**	3,911
Interim dividend for 2014: 2.40 pence per share (2013: 2.40 pence per share)	**2,934**	2,934
	5,868	6,845
Proposed for approval by shareholders at the Annual General Meeting		
Final dividend for 2014: 3.20 pence per share (2013: 2.40 pence per share)	**3,911**	2,934

Subject to approval by shareholders, the final dividend was approved by the Board on 29th April 2014 and has not been included as a liability or deducted from retained earnings as at 28th February 2014. The final dividend is payable on 22nd August 2014 to ordinary shareholders on the register at the close of business on 25th July 2014 and will be recognised in the year ending 28th February 2015.

9 Earnings/(loss) per share and net assets per share

Basic earnings/(loss) per share amounts are calculated by dividing profit/(loss) for the year attributable to owners of the Parent by the weighted average number of Ordinary shares outstanding during the year, excluding shares purchased by the Parent and held as treasury shares.

Diluted earnings/(loss) per share amounts are calculated by dividing the profit/(loss) attributable to owners of the Parent by the weighted average number of Ordinary shares outstanding during the year plus the weighted average number of Ordinary shares that would be issued on the conversion of all the dilutive potential Ordinary shares into Ordinary shares.

Basic net assets per share amounts are calculated by dividing net assets by the number of Ordinary shares in issue at the balance sheet date excluding shares purchased by the Parent and held as treasury shares.

Diluted net assets per share amounts are calculated by dividing net assets by the number of Ordinary shares in issue at the balance sheet date plus the number of Ordinary shares that would be issued on the conversion of all the dilutive potential Ordinary shares into Ordinary shares.

Management has chosen to disclose the European Public Real Estate (EPRA) adjusted net assets per share and earnings per share from continuing activities in order to provide an indication of the Group's underlying business performance and to assist comparison between European property companies.

EPRA earnings is the profit/(loss) after taxation excluding investment property revaluations (including valuations of joint venture investment properties), gains on disposals of investment and trading properties, impairment of development and trading properties and mark-to-market movements of derivative financial instruments (including those of joint ventures) and intangible asset movements and their related taxation.

EPRA net assets (EPRA NAV) are the Balance Sheet net assets excluding mark-to-market adjustment on effective cash flow hedges and related debt adjustments and deferred taxation on revaluations and diluting for the effect of those shares potentially issuable under employee share schemes.

EPRA NAV per share is EPRA NAV divided by the number of Ordinary shares in issue at the balance sheet date.

EPRA triple net assets is EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.

The calculation of basic and diluted earnings/(loss) per share and EPRA profit/(loss) per share is based on the following data:

	Year ended 28th February 2014 £'000	Year ended 28th February 2013 £'000
Profit		
Profit for the purpose of basic and diluted earnings per share	**18,236**	2,421
Revaluation (surplus)/deficit (including share of joint venture revaluation surplus)	**(4,824)**	12,901
Gain on disposal of investment properties	**(539)**	(864)
Gain on disposal of trading properties	**(2,502)**	(4,569)
Impairment of development and trading properties	**232**	2,246
Mark-to-market adjustment on interest rate swaps (including share of joint venture mark-to-market adjustment)	**(1,059)**	724
EPRA adjusted profit from continuing activities attributable to owners of the Company	**9,544**	12,859

	Year ended 28th February 2014 '000	Year ended 28th February 2013 '000
Number of shares		
Weighted average number of Ordinary shares for the purpose of earnings per share	**122,229**	122,270
Effect of dilutive potential Ordinary shares:		
Share options	**42**	3
Weighted average number of Ordinary shares for the purpose of diluted earnings per share	**122,271**	122,273
Basic earnings per share (pence)	**14.9p**	2.0p
Diluted earnings per share (pence)	**14.9p**	2.0p
EPRA adjusted earnings per share (pence)	**7.8p**	10.5p
EPRA adjusted diluted earnings per share (pence)	**7.8p**	10.5p

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

9 Earnings/(loss) per share and net assets per share continued

Net assets per share and diluted net assets per share have been calculated as follows:

	Year ended 28th February 2014			Year ended 28th February 2013		
	Net assets £'000	**No. of shares '000**	**Net assets per share pence**	Net assets £'000	No. of shares '000	Net assets per share pence
Basic net assets per share attributable to the owners	**320,245**	**122,229**	**262**	306,610	122,229	251
Cumulative mark-to-market adjustment on interest rate swaps	**8,085**			10,942		
EPRA adjusted net assets per share	**328,330**	**122,229**	**269**	317,552	122,229	260
Cumulative mark-to-market adjustment on interest rate swaps	**(8,085)**			(10,942)		
Fair value of debt	**(4,204)**			(9,897)		
EPRA adjusted triple net assets per share	**316,041**	**122,229**	**259**	296,713	122,229	243
Effect of dilutive potential Ordinary shares	**486**	**222**	**–**	1,524	557	–
Diluted net assets per share	**320,731**	**122,451**	**262**	308,134	122,786	251
EPRA diluted net assets per share	**328,816**	**122,451**	**269**	319,076	122,786	260
EPRA diluted triple net assets per share*	**316,527**	**122,451**	**259**	298,237	122,786	243

* In calculating EPRA triple net assets per share the Directors have not included an estimate of the fair value of the development and trading portfolio given the uncertainty of the timing and amount related to future sales.

10 Investment properties

	Freehold £'000	Long leasehold £'000	Total £'000
At valuation 1st March 2012	228,884	9,015	237,899
Additions:			
– acquisitions	680	–	680
– capital expenditure	1,161	568	1,729
Disposals	(3,906)	–	(3,906)
Deficit on revaluation	(14,972)	(1,356)	(16,328)
At valuation 28th February 2013	211,847	8,227	220,074
Additions:			
– acquisitions	9,452	–	9,452
– capital expenditure	2,013	209	2,222
Disposals	(32,749)	–	(32,749)
Surplus/(deficit) on revaluation	3,176	(72)	3,104
Transferred to investment properties held for sale	(42,410)	–	(42,410)
At valuation 28th February 2014	**151,329**	**8,364**	**159,693**

Direct costs of £2,649,000 (28th February 2013: £3,978,000) arose as a result of ownership of investment properties.

	28th February 2014 £'000	28th February 2013 £'000
Analysis of investment properties		
Non-current	**159,693**	220,074
Current – held for sale	**42,410**	–
	202,103	220,074

Reconciliation of market value of investment properties to the net book amount

The following table reconciles the market value of investment properties to their net book amount. The components of the reconciliation are included within their relevant balance sheet heading.

	28th February 2014 £'000	28th February 2013 £'000
Market value as assessed by the independent valuers or Directors	**207,551**	225,766
Amount included in prepayments and accrued income in respect of lease incentives	**(5,448)**	(5,692)
Net book amount of Investment properties – non-current assets	**159,693**	220,074
Net book amount of Investment properties – held for sale	**42,410**	–

At 28th February and 31st August each year, the Group engages external, independent and qualified valuers to determine the fair value of the Group's Investment property assets in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. As at 28th February 2014 and at 28th February 2013, completed Investment properties have been valued by DTZ Debenham Tie Leung, Chartered Surveyors, Savills Commercial Limited, Chartered Surveyors, GVA Grimley Limited, Commercial Property Advisers or Ryden LLP, Commercial Property Consultants at a value of £132,969,000 (28th February 2013: £190,764,000). The current value equates to the highest and best use of the asset.

As at 28th February 2013, £14,625,000 of land held as investment property was valued by Colliers CRE, Chartered Surveyors.

The valuers have consented to the use of their names in the financial statements.

Valuation methodology

The key driver of our investment portfolio valuations is the terms of the leases in place at the date of valuation. The lease information will determine the cash flow profile of the property in the future, forming the basis of the valuation. The valuation assumes adjustments from these rental streams to current market rent at the time of the next rent review, (leases generally allow for upward only rent reviews) and as leases expire and are replaced by new leases. The current market level of rent is based on evidence from recent, comparable leasing transactions and negotiations. This is based on evidence available at the date of the valuation and does not assume any future increases in market rent.

The nominal equivalent yield is applied as a discount rate to the rental cash flows which, after taking into account other input assumptions such as voids and landlords costs, generates the market value of the property. The nominal equivalent yield applied is assessed by reference to similar market transactions and takes into account any risks associated with rent uplift assumptions. For multi-let property assets, different nominal yields will be applied to each tenant to arrive at an overall nominal yield and valuation for the asset. For example a foodstore anchor tenant with a strong covenant may attract a yield of 4.9 per cent whereas a local sole trader will be valued off a yield of 9.0 per cent. Vacant units will also be allocated a yield based on the likelihood of re-letting the space. The average nominal yield applied to the investment portfolio was 7.7 per cent for the year ended 28th February 2014 (28th February 2013: 7.9 per cent).

Assets totalling £9,452,000 were acquired in February 2014 and are carried at cost.

£42,410,000 of assets had been contracted for sale as at 28th February 2014 and have therefore been valued at their sales price less costs to sell. These assets have been reclassified as current assets held for sale as at 28th February 2014.

Also included within Investment properties are freehold land and buildings representing investment properties under development, amounting to £17,272,000 (28th February 2013: £14,685,000), which have been valued by the Directors. These properties comprise buildings and landholdings for current or future development as investment properties. This approach has been taken because the value of these properties is dependent on a detailed knowledge of the planning status, the competitive position of these assets and a range of complex project development appraisals.

Investment properties under development include £7,190,000 (28th February 2013: £7,678,000) of landholdings adjacent to retail properties within the Group's portfolio, acquired for the purpose of extending the existing shopping centres. The fair value of these properties rests in the planned extensions, and is difficult to estimate pending confirmation of designs and planning permission, and hence has been estimated by the Directors at cost as an approximation to fair value.

£187,590,000 (28th February 2013: £198,170,000) of total Investment properties are charged as security against the Group's borrowings.

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities. This may be the agreed sales price of an asset where exchange has occurred after the year end date (level 1). Assets held for sale of £42,410,000 are defined as level 1 assets.

(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). These assets are valued by external valuers and Directors (level 3). An analysis of level 3 assets is provided below.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

10 Investment properties continued

Analysis of Level 3 Investment properties

Class of property Level 3	Market value 28th February 2014 £'000	Valuation technique	Key unobservable inputs	Range 28th February 2014	Sensitivity analysis – equivalent yield: 50 basis point yield contraction £'000	Sensitivity analysis – equivalent yield: 50 basis point yield expansion £'000
Shopping centres	**82,883**	Income capitalisation	Equivalent yields	4.85% - 33.00%	5,985	(5,150)
Retail/commercial space	**41,636**	Income capitalisation	Equivalent yields	5.00% - 15.00%	3,394	(2,953)
Retail/commercial space	**9,452**	Cost	n/a	n/a	–	–
Office	**8,450**	Income capitalisation	Equivalent yields	7.75% - 11.75%	525	(475)
Land held for development	**9,674**	Residual development method	Price per acre / development margin	£0.45m per acre / 15.0% - 20.0%	–	–
Buildings held for development	**7,598**	Residual development method	Estimated profit margin	15.0% - 20.0%	–	–
	159,693					

Further information relating to the Group's Investment portfolio is set out in the Operating Review on pages 38 to 41.

The Group engages external, independent and qualified valuers to determine the fair value of Level 3 assets. The valuers liaise with the Investment Team every six months, reviewing tenant information relating to covenant strength, lease period and rental terms. Valuers will also review comparable transactions in the market. The fair value of Level 3 assets is also determined by reviewing local sales data or, where the assets are held for the purpose of extending an existing retail asset, by reviewing appraisals relating to the proposed scheme.

Assets have been transferred from Level 3 to Level 1 where sales prices have been agreed prior to the year end and the sale has subsequently exchanged after 28th February 2014. Independent valuations have not been obtained for these assets.

11 Operating property – serviced offices

	Long leasehold £'000
Valuation	
At 1st March 2012	1,497
Deficit on revaluation	(95)
At 28th February 2013	1,402
Surplus on revaluation	5
At 28th February 2014	**1,407**
Accumulated depreciation	
At 1st March 2012	597
Charge for the year	65
At 28th February 2013	662
Charge for the year	65
At 28th February 2014	**727**
Net book amount 28th February 2014	**680**
Net book amount 28th February 2013	740
Net book amount 1st March 2012	900
Original cost of operating property at 28th February 2014 and 28th February 2013	1,583

The operating property is charged as security against the Group's borrowings.

Depreciation expense of £65,000 (28th February 2013: £65,000) is included within operating costs.

The surplus on revaluation of long leasehold property for the year ended 28th February 2014 is £5,000 (28th February 2013: £95,000 deficit) and has been credited to the Statement of Comprehensive Income. If the Operating property was measured using the cost model, the carrying value would be £856,000 (28th February 2013: £921,000).

The Group's Operating property has been valued at market value as at 28th February 2014 by independent professional valuers DTZ Debenham Tie Leung, Chartered Surveyors, on the basis of Existing Use Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors and without any special assumptions. The values disclosed above are as stated by the valuer in its valuation report to the Directors.

The valuer has consented to the use of its name in the financial statements.

12 Intangible assets

	£'000
Goodwill	
At 1st March 2012	1,268
Goodwill charged to profit and loss on disposal of development asset	(1,030)
At 28th February 2013 and 28th February 2014	**238**

On 29th March 2010, the Group acquired 100.0 per cent of the issued shares in Henry Davidson Developments Limited (HDD), a property development company specialising in neighbourhood retail schemes. Goodwill of £1,268,000 arose as a result of HDD's expected future profits from two specific developments acquired. During the year ended 28th February 2013, goodwill of £1,030,000 was charged to profit and loss following the sale of one of the development sites.

The remaining balance of goodwill has been tested for impairment at the reporting date. The current project appraisals are reviewed at each reporting date, assessing the timing of the cash flows and expected future profit associated with the project.

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the operating segment. The recoverable amount of all CGUs has been determined based on value-in-use calculations. The calculations use pre-tax cash flow projections based on financial budgets approved by management covering a period up to the completion of each project (or less than five years). The pre-tax discount rate used was 11.0 per cent. No provision for impairment was considered necessary. No reasonable change in any assumption would give rise to a material impairment.

13 Other plant and equipment

	Fixtures and fittings and computer equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1st March 2012	9,373	365	9,738
Additions	392	11	403
Disposals	(28)	(63)	(91)
At 28th February 2013	9,737	313	10,050
Additions	365	30	395
Disposals	(22)	(143)	(165)
At 28th February 2014	**10,080**	**200**	**10,280**
Accumulated depreciation			
At 1st March 2012	6,077	215	6,292
Charge for the year	617	55	672
Disposals	(10)	(28)	(38)
At 28th February 2013	6,684	242	6,926
Charge for the year	669	34	703
Disposals	(6)	(140)	(146)
At 28th February 2014	**7,347**	**136**	**7,483**
Net book amount 28th February 2014	**2,733**	**64**	**2,797**
Net book amount 28th February 2013	3,053	71	3,124
Net book amount 1st March 2012	3,296	150	3,446

Depreciation expense of £227,000 (28th February 2013: £249,000) is included within operating costs and £476,000 (28th February 2013: £423,000) is included within direct costs.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

14 Investments

	Investments in associates £'000	Investments in joint ventures £'000
At 1st March 2012	4,276	26,568
Additions	–	15,728
Share of profit	–	4,024
Share of revaluation surplus	–	3,522
Share of mark-to-market adjustment on interest rate swaps	–	136
Share of results	–	7,682
Transfer to subsidiary	–	(2,467)
Capital distributions	–	(7,374)
At 28th February 2013	4,276	40,137
Additions	–	12,038
Share of profit	–	11,013
Share of revaluation surplus	–	1,715
Share of mark-to-market adjustment on interest rate swaps	–	106
Share of results	–	12,834
Capital distributions	–	(33,229)
At 28th February 2014	**4,276**	**31,780**

A summary of the Group's projects in partnership and the balance sheet classification of its interests is set out in note 27.

a) Investment in associates

The Group has the following interest in associates:

	% of holding	Country of incorporation	Principal activity	Reporting segment	Acquisition date	Note
Atlantic Park (Bideford) Limited	40	United Kingdom	Property development	Development and trading	September 2010	
Barwood Development Securities Limited	40	United Kingdom	Property development	Development and trading	January 2012	
Barwood Land and Estates Limited	25	United Kingdom	Property development	Development and trading	November 2009	
Northpoint Developments Limited	42	United Kingdom	Property development	Development and trading	November 2007	i
Wessex Property Fund	47	Jersey	Investment property	Investment	September 2007	i

i) The investment in the associate has been fully provided against.

In February 2014, the Group acquired an additional 17 per cent of the shares in CTP Securities Limited. The company has subsequently changed its name to Northpoint Developments Limited.

						28th February 2014
	Atlantic Park (Bideford) Limited £'000	Barwood Development Securities Limited £'000	Barwood Land and Estates Limited £'000	Northpoint Developments Limited £'000	Wessex Property Fund £'000	Total £'000
Summarised balance sheets:						
Non-current assets	–	129	220	459	–	808
Current assets	423	1,324	109	3,816	1,108	6,780
Current liabilities	(223)	(317)	(37)	(610)	(5,000)	(6,187)
Non-current liabilities	–	–	–	(8,912)	–	(8,912)
Share of net assets/(liabilities)	200	1,136	292	(5,247)	(3,892)	(7,511)
Share of net liabilities not recognised	–	–	–	5,247	3,892	9,139
Goodwill	76	1,364	1,208	–	–	2,648
Group's share of net assets	276	2,500	1,500	–	–	4,276
Summarised income statements:						
Share of revenue	10	782	252	1,968	256	3,268
Share of post-tax (losses)/profits of associates	(34)	338	49	(24)	(835)	(506)
Share of losses/(profits) not recognised	34	(338)	(49)	24	835	506
Share of (losses)/profits recognised	–	–	–	–	–	–

						28th February 2013
	Atlantic Park (Bideford) Limited £'000	Barwood Development Securities Limited £'000	Barwood Land and Estates Limited £'000	CTP Securities Limited £'000	Wessex Property Fund £'000	Total £'000
Summarised balance sheets:						
Non-current assets	–	71	190	1,205	5,071	6,537
Current assets	338	980	95	3,859	235	5,507
Current liabilities	(179)	(58)	(6)	(657)	(323)	(1,223)
Non-current liabilities	–	–	–	(5,064)	(9,233)	(14,297)
Share of net assets/(liabilities)	159	993	279	(657)	(4,250)	(3,476)
Share of net liabilities not recognised	–	–	–	657	4,250	4,907
Goodwill	117	1,507	1,221	–	–	2,845
Group's share of net assets	276	2,500	1,500	–	–	4,276
Summarised income statements:						
Share of revenue	–	155	210	5,109	274	5,748
Share of post-tax (losses)/profits of associates	(59)	(34)	35	348	11	301
Share of losses/(profits) not recognised	59	34	(35)	(348)	(11)	(301)
Share of (losses)/profits recognised	–	–	–	–	–	–

Any contingent liabilities in relation to our associate investment partners are disclosed in note 24.

b) Investment in joint ventures

As at 28th February 2014, the Group has the following interests in joint ventures:

	% of holding	Country of incorporation	Principal activity	Reporting segment	Acquisition date	Accounting reference date
Accrue Student Housing GP Limited	50	United Kingdom	Property development	Development and trading	September 2011	31st August
Curzon Park Limited	50	United Kingdom	Property development	Development and trading	November 2006	28th February
Development Equity Partners Limited	50	Jersey	Property development	Development and trading	December 2011	28th February
DS Renewables LLP*	50	United Kingdom	Property development	Development and trading	May 2012	28th February
The Esplanade Partnership Limited	50	Jersey	Property trading	Development and trading	August 2012	28th February
Harwell Oxford Developments Limited	50	United Kingdom	Property development	Development and trading	December 2013	28th February
Kensington & Edinburgh Estates (South Woodham Ferrers) Limited	50	United Kingdom	Property development	Development and trading	July 2013	28th February
Manchester Arena Complex LP	30	United Kingdom	Investment property	Investment	June 2010	28th February
Notting Hill (Guernsey Holdco) Limited	24	Guernsey	Investment property	Development and trading	June 2011	31st December
OSB (Holdco 1) Limited	50	United Kingdom	Property development	Development and trading	February 2014	28th February
Purplexed LLP	50	United Kingdom	Property development	Development and trading	April 2011	31st March
Winnebago Holdings Sarl	35	Luxembourg	Investment property	Investment	April 2012	31st December

*The company is dormant and therefore no balance sheet or income statement is presented.

In July 2013, the Group acquired a 50.0 per cent holding in Kensington & Edinburgh Estates (South Woodham Ferrers) Limited with its partner Kensington & Edinburgh Estates Limited holding the remaining 50.0 per cent of the equity. The company is registered and incorporated in the United Kingdom.

In December 2013, the Group acquired a 50.0 per cent holding in Harwell Oxford Developments Limited with its partner Harwell Oxford Partners LLP holding the remaining 50.0 per cent of the equity. The company is registered and incorporated in the United Kingdom.

In February 2014, the Group acquired a 50.0 per cent holding in OSB (Holdco 1) Limited with its partner Orion Land & Leisure Limited holding the remaining 50.0 per cent of the equity. The company is registered and incorporated in the United Kingdom.

The Group's share of net assets has been recognised as at 28th February 2014 for joint venture interests according to the holdings detailed above.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

14 Investments continued

b) Investment in joint ventures continued

The Group's share of the assets, liabilities, income and expenses of its joint ventures, which includes amounts receivable from those joint ventures, is as follows:

	Accrue Student Housing GP Limited £'000	Curzon Park Limited £'000	Development Equity Partners Limited £'000	The Esplanade Partnership Limited £'000	Harwell Oxford Developments Limited £'000
Summarised balance sheets:					
Non-current assets	–	–	–	–	–
Current assets	4,398	22,329	276	577	7,804
Current liabilities	(225)	(10)	–	(54)	(458)
Non-current liabilities	(2,572)	(10,505)	–	–	(1,207)
Share of net assets	1,601	11,814	276	523	6,139
Share of net assets not recognised	–	(11,814)	–	–	–
Share of net assets recognised	1,601	–	276	523	6,139
Summarised income statements:					
Revenue	511	86	–	10,569	35
Direct costs	(288)	(1,265)	(4)	(2,449)	(391)
Finance income	–	–	–	5	182
Finance costs	(146)	(202)	–	(408)	(103)
Gain on revaluation	–	–	–	–	–
Share of profit/(loss) before and after tax	77	(1,381)	(4)	7,717	(277)

	Accrue Student Housing GP Limited £'000	Curzon Park Limited £'000	Development Equity Partners Limited £'000	The Esplanade Partnership Limited £'000	Harwell Oxford Developments Limited £'000
Summarised balance sheets:					
Non-current assets	–	–	–	25,007	–
Current assets	4,237	20,906	281	3,282	–
Current liabilities	(129)	(35)	(1)	(4,757)	–
Non-current liabilities	(2,634)	(11,655)	–	(15,526)	–
Share of net assets	1,474	9,216	280	8,006	–
Share of net assets not recognised	–	(9,216)	–	–	–
Share of net assets recognised	1,474	–	280	8,006	–
Summarised income statements:					
Revenue	291	62	–	8,676	–
Direct costs	(165)	(1,167)	(14)	(2,329)	–
Finance income	–	–	–	1	–
Finance costs	(90)	(311)	–	(742)	–
Gain on revaluation	–	–	–	–	–
Share of profit/(loss) before and after tax	36	(1,416)	(14)	5,606	–

Any contingent liabilities in relation to our joint ventures are disclosed in note 24.

						28th February 2014
Kensington and Edinburgh Estates (South Woodham Ferrers) Limited £'000	Manchester Arena Complex LP £'000	Notting Hill (Guernsey Holdco) Limited £'000	OSB (Holdco 1) Limited £'000	Purplexed LLP £'000	Winnebago Holdings Sarl £'000	Total £'000
–	10	–	–	480	8,225	8,715
163	577	13,455	12,293	12,960	653	75,485
–	(526)	(661)	(325)	(875)	(611)	(3,745)
–	–	(6,225)	(8,282)	(3,233)	(4,837)	(36,861)
163	61	6,569	3,686	9,332	3,430	43,594
–	–	–	–	–	–	(11,814)
163	61	6,569	3,686	9,332	3,430	31,780
–	4,576	384	35	1,842	840	18,878
–	(809)	(54)	(11)	(383)	(308)	(5,962)
–	48	32	–	764	121	1,152
–	(504)	(772)	–	(443)	(371)	(2,949)
–	917	–	–	–	798	1,715
–	4,228	(410)	24	1,780	1,080	12,834

						28th February 2013
Kensington and Edinburgh Estates (South Woodham Ferrers) Limited £'000	Manchester Arena Complex LP £'000	Notting Hill (Guernsey Holdco) Limited £'000	OSB (Holdco 1) Limited £'000	Purplexed LLP £'000	Winnebago Holdings Sarl £'000	Total £'000
–	23,299	–	–	–	10,399	58,705
–	2,905	13,093	–	12,409	468	57,581
–	(2,873)	(285)	–	(349)	(764)	(9,193)
–	(13,499)	(6,155)	–	(4,508)	(3,763)	(57,740)
–	9,832	6,653	–	7,552	6,340	49,353
–	–	–	–	–	–	(9,216)
–	9,832	6,653	–	7,552	6,340	40,137
–	1,731	415	–	841	591	12,607
–	(954)	(67)	–	(562)	(1,230)	(6,488)
–	120	39	–	606	1	767
–	(711)	(440)	–	(197)	(235)	(2,726)
–	239	–	–	–	3,283	3,522
–	425	(53)	–	688	2,410	7,682

c) Principal subsidiaries

The Group has taken advantage of the exemption under s410 of the Companies Act 2006 and presents below only those undertakings with net assets in excess of 5.0 per cent of Group net assets.

The following were principal subsidiaries at 28th February 2014:

	% holding in Ordinary shares	Country of incorporation	Principal activity
Development Securities Estates PLC	100	United Kingdom	Management and Investment Company
Development Securities (Investments) PLC	100	United Kingdom	Property Investment
DS Jersey (No. 1) Limited	100	Jersey	Investment

A full list of subsidiaries is available on request.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

15 Inventory

Development and trading properties	Development properties £'000	Trading properties £'000	Total £'000
At 1st March 2012	71,912	83,281	155,193
Additions:			
– acquisitions	1,807	1,450	3,257
– development expenditure	26,171	2,326	28,497
– transfer from investment in joint venture	2,724	–	2,724
Disposals	(16,359)	(17,650)	(34,009)
Write down of trading properties to net realisable value	–	(2,246)	(2,246)
At 28th February 2013	86,255	67,161	153,416
Additions:			
– acquisitions	4,733	37,946	42,679
– development expenditure	17,822	8,840	26,662
– transfer from development to trading properties	(7,722)	7,722	–
Disposals	(14,299)	(15,743)	(30,042)
Write down of trading properties to net realisable value	(182)	(50)	(232)
At 28th February 2014	**86,607**	**105,876**	**192,483**

Included in the above amounts are projects stated at net realisable value of £42,308,000 (28th February 2013: £42,921,000).

Net realisable value has been estimated by the Directors, taking account of the plans for each project, the planning status and competitive position of each asset, and the anticipated market for the scheme. For material developments, the Directors have consulted with third party chartered surveyors in setting their market assumptions.

Interest of £51,000 (28th February 2013: £1,528,000) was capitalised on development and trading properties during the year. Capitalised interest included within the carrying value of such properties on the Balance Sheet is £1,653,000 (28th February 2013: £1,665,000).

On 11th February 2013, the Group acquired the remaining 50.0 per cent share capital in S Harrison Developments Lichfield Limited, a company previously held as a joint venture. The cost of the inventory acquired was £2,724,000.

16 Trade and other receivables

a) Non-current	28th February 2014 £'000	28th February 2013 £'000
Prepayments and accrued income	**7,652**	5,100

b) Current	28th February 2014 £'000	28th February 2013 £'000
Trade receivables	**2,229**	2,066
Amounts due from customers for contract work	**605**	200
Other receivables	**34,227**	16,838
Other tax and social security	**1,596**	649
Prepayments and accrued income	**2,178**	1,890
	40,835	21,643

The Group has provided £183,000 (28th February 2013: £332,000) for outstanding balances where recovery is considered doubtful. Apart from the receivables that have been provided for at the year-end, there are no other material receivables, past due but not impaired. The maximum exposure to credit risk at the reporting date is the carrying value of the receivable.

Transactions and balances with related parties are disclosed in note 26.

17 Trade and other payables

a) Non-current	28th February 2014 £'000	28th February 2013 £'000
Trade payables	**1,500**	–

b) Current	28th February 2014 £'000	28th February 2013 £'000
Trade payables	**1,042**	1,390
Amounts due to suppliers for contract work	**–**	241
Other payables	**9,331**	5,579
Other tax and social security	**394**	1,115
Accruals and deferred income	**21,153**	16,025
	31,920	24,350

c) Provisions	Onerous leases £'000	Other provisions £'000	Total £'000
At 1st March 2013	3,026	38	3,064
Charged to the Statement of Comprehensive Income	361	181	542
Credited to the Statement of Comprehensive Income	(83)	(70)	(153)
Utilised during the year	(472)	(61)	(533)
Amortisation of discount	116	–	116
At 28th February 2014	**2,948**	**88**	**3,036**

Analysis of total provisions	28th February 2014 £'000	28th February 2013 £'000
Non-current	**2,843**	2,845
Current	**193**	219
	3,036	3,064

Provisions of £88,000 (28th February 2013: £38,000) relate to properties and £2,948,000 (28th February 2013: £3,026,000) to onerous leases.

£1,270,000 (28th February 2013: £1,270,000) has been provided to cover the onerous liability associated with leases at four of our serviced office centres.

Three provisions of £948,000 (28th February 2013: £1,003,000), £104,000 (28th February 2013: £181,000) and £257,000 (28th February 2013: £nil) relate to onerous lease obligations entered into in 2009, 1989 and 1974 respectively.

The Group has been called as guarantor in respect of three Stead and Simpson Limited leases. £369,000 (28th February 2013: £572,000) has been provided to cover the Group's obligations.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

18 Financial assets and financial liabilities

The following table is a summary of the financial assets and financial liabilities included in the Consolidated Balance Sheet:

	28th February 2014 £'000	28th February 2013 £'000
Non-current assets		
Available-for-sale financial assets	**19,527**	24,163
Loan notes at amortised cost less impairment	**8,675**	8,625
	28,202	32,788
Current assets		
Loans and receivables	**1,700**	1,700
Trade and other receivables at amortised cost less impairment	**38,856**	19,104
Monies held in restricted accounts and deposits	**27,263**	11,527
Cash and cash equivalents	**40,051**	47,683
	107,870	80,014
Total financial assets	**136,072**	112,802
Current liabilities		
Trade and other payables at amortised cost	**(28,477)**	(19,928)
Borrowings at amortised cost	**(24,674)**	(2,001)
	(53,151)	(21,929)
Non-current liabilities		
Trade and other payables at amortised cost	**(1,500)**	–
Borrowings at amortised cost	**(196,404)**	(203,980)
Derivative financial instruments used for hedging at fair value	**(1,744)**	(1,817)
Derivative financial instruments not used for hedging at fair value through profit or loss	**(451)**	(1,404)
	(200,099)	(207,201)
Total financial liabilities	**(253,250)**	(229,130)

a) Other financial assets

Non-current	28th February 2014 £'000	28th February 2013 £'000
Available-for-sale financial assets	**19,527**	24,163
Loan notes at amortised cost less impairment	**8,675**	8,625
	28,202	32,788

Available-for-sale financial assets	28th February 2014 £'000	28th February 2013 £'000
Development participation rights	**–**	5,000
Development loans to joint operations	**19,527**	19,163
	19,527	24,163

Development loans to joint operations include a number of working capital and project-specific loans of £8,115,000 (28th February 2013: £7,121,000) to Northpoint Developments Limited (formerly CTP Securities Limited). The loans attract fixed coupon rates of between 5.0 and 13.0 per cent. Included in the above amount is an interest-free loan of £208,000 (28th February 2013: £208,000).

In 2010, the Group provided a £5,000,000 loan to the Curzon Park Limited joint venture in order to repay a share of its bank debt. The joint venture partner provided the equivalent amount. In October 2012, the Group, along with our joint venture partner, agreed a three-year repayment schedule in respect of the loan facility secured against the 10.5 acre site in Birmingham. £6,900,000 of the loan has been repaid at the balance sheet date of which the Group's share is 50.0 per cent. To date, £2,300,000 of instalments paid by the Group has been included as an expense in the results of the joint venture. A further instalment of £1,150,000 was paid in November 2013. Following further review, the Group considers that this amount will be recovered from Curzon Park Limited, either through the compulsory sale of land or on development of the residual land retained. As at 28th February 2014, the development loan to Curzon Park is £6,150,000 (28th February 2013: £5,000,000). The Directors will review the position at each debt repayment date to determine whether the instalments are recoverable from Curzon Park Limited in the future or whether they should be expensed in the period in which they are paid.

The Group has two funding agreements totalling £5,262,000 (28th February 2013: £7,042,000), in respect of projects in partnership. The loans attract fixed coupon rates of 6.0 and 8.5 per cent.

Loan notes with a carrying value of £8,425,000 were issued in November 2007 by Northpoint Developments Limited (formerly CTP Securities Limited), with a fixed term of ten years and a fixed coupon rate of 4.25 per cent. A further £200,000 interest free loan notes were acquired in 2012 and £50,000 in February 2014.

Current	28th February 2014 £'000	28th February 2013 £'000
Loans and receivables:		
Northpoint Developments Limited	**200**	200
Property Alliance Group	**1,500**	1,500
	1,700	1,700

The Group has provided a short-term, non-interest-bearing loan of £200,000 to Northpoint Developments Limited (formerly CTP Securities Limited) and £1,500,000 to Property Alliance Group as a contribution to a prospective future project, this amount is repayable on demand.

b) Borrowings

	28th February 2014		28th February 2013	
Current	**£'000**	**£'000**	£'000	£'000
Bank overdrafts		**–**		–
Current instalments due on bank loans	**3,476**		2,541	
Current loans maturing	**21,808**		–	
Unamortised transaction costs	**(610)**		(540)	
		24,674		2,001
		24,674		2,001

Non-current	28th February 2014 £'000	28th February 2013 £'000
First mortgage debenture 11% due 2016	**20,000**	20,000
Bank loans and loan notes	**178,530**	186,310
Unamortised transaction costs	**(2,126)**	(2,330)
	196,404	203,980

Bank loans and the debenture are secured by way of mortgages and legal charges on certain properties and cash deposits held by the Group.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

18 Financial assets and financial liabilities continued

b) Borrowings continued

Borrowings	28th February 2014 £'000	28th February 2013 £'000
£20,000,000 first mortgage debenture 2016	**20,000**	20,000
£3,000,000 variable rate loan 2014	**3,000**	3,000
£9,000,000 variable rate loan 2014	**9,000**	9,000
£5,669,000 variable rate loan 2014	**5,110**	5,380
£1,531,000 variable rate loan 2014	**1,380**	1,452
£1,000,000 variable rate loan 2015	**934**	907
£2,500,000 variable rate loan 2015	**2,367**	982
£6,200,000 variable rate loan 2015	**5,320**	5,935
£10,000,000 variable rate loan 2015	**7,965**	–
£1,550,000 variable rate loan 2015	**1,475**	1,525
£4,500,000 variable rate loan 2015	**4,087**	4,213
£1,500,000 variable rate loan 2015	**1,500**	1,500
£38,000,000 variable rate loan 2016	**37,713**	37,913
£10,500,000 variable rate loan 2017	**10,500**	–
£57,565,000 fixed rate loan 2025	**53,586**	54,896
£22,470,000 fixed rate loan 2025	**21,113**	21,659
€47,000,000 variable rate loan notes 2027	**38,747**	40,472
£16,500 variable rate loan notes 1999	**17**	17
	223,814	208,851
Less: current instalments due on bank loans	**(3,476)**	(2,541)
Current loans maturing	**(21,808)**	–
	198,530	206,310

£20,000,000 first mortgage fixed rate debenture
This secured debenture is repayable in one instalment on 6th January 2016.

£3,000,000 variable rate loan
This secured loan is repayable in one instalment on 8th July 2014.

£9,000,000 variable rate loan
This secured loan is repayable in one instalment on 29th July 2014.

£5,669,000 variable rate loan
£770,000 loan capital amortises over the term of the loan. The remaining £4,899,000 is repayable in one instalment on 24th November 2014. This loan was repaid on 28th March 2014.

£1,531,000 variable rate loan
£208,000 loan capital amortises over the term of the loan. The remaining £1,323,000 is repayable in one instalment on 24th November 2014. This loan was repaid on 28th March 2014.

£1,000,000 variable rate loan
This secured loan is repayable in one instalment on 8th February 2015. This is a development facility where the loan is drawn down over the progress of the development. The current balance outstanding on the facility is £934,000.

£2,500,000 variable rate loan
This secured loan is repayable in one instalment on 10th July 2015. This is a development facility where the loan is drawn down over the progress of the development. The current balance outstanding on the facility is £2,367,000.

£6,200,000 variable rate loan
£1,600,000 loan capital amortises with effect from the second anniversary of the drawdown of the loan. The remaining £4,600,000 is repayable in one instalment on 12th July 2015. This loan was repaid on 14th April 2014.

£10,000,000 variable rate loan
Surplus rental income is applied against the loan on a quarterly basis with the balance repayable on 20th June 2015. This is a combined investment and development facility where the development loan is drawn down over the progress of the development. The current balance outstanding on the facility is £7,965,000.

£1,550,000 variable rate loan
£150,000 loan capital amortises over the term of the loan. The remaining £1,400,000 is repayable in one instalment on 9th August 2015. The current balance outstanding on the facility is £1,475,000.

£4,500,000 variable rate loan
£500,000 loan capital amortises over the term of the loan. The remaining £4,000,000 is repayable in one instalment on 6th October 2015. The current balance outstanding on the facility is £4,087,000.

£1,500,000 variable rate loan
This secured loan is repayable in one instalment on 6th October 2015.

£38,000,000 variable rate loan
£2,700,000 loan capital amortises with effect from the second anniversary of the drawdown of the loan. The remaining £35,213,000 is repayable in one instalment on 16th December 2016. The current balance outstanding on the facility is £37,713,000.

£10,500,000 variable rate loan
This secured loan is repayable in one instalment on 13th February 2017.

£57,565,000 fixed rate loan
£25,665,000 loan capital amortises over the term of the loan. The remaining £31,900,000 is repayable in one instalment on 12th March 2025. The current balance outstanding on the facility is £53,586,000.

£22,470,000 fixed rate loan
£9,980,000 loan capital amortises over the term of the loan. The remaining £12,490,000 is repayable in one instalment on 12th March 2025. The current balance outstanding on the facility is £21,113,000.

€47,000,000 variable EURIBOR loan notes
These unsecured loan notes were issued on 20th September 2007 and are denominated in Euros. They are repayable on 25th October 2027. The terms of these loan notes were renegotiated in March 2014.

£16,500 loan notes
These unsecured loan notes were repayable in 1999. The balance of £16,500 represents the residual amount of unredeemed loan notes.

A full explanation of the Group's borrowings and any changes since the balance sheet date can be found in the Financial Review on pages 42 to 48.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

18 Financial assets and financial liabilities continued

c) Derivative financial instruments

	28th February 2014 £'000	28th February 2013 £'000
Cash flow hedge: cross-currency interest rate swap	**(1,744)**	(1,817)
Derivative financial instruments at fair value through profit or loss:		
Interest rate swaps, caps and collars	**(451)**	(1,404)
Derivative financial instruments	**(2,195)**	(3,221)

At 28th February 2014, the Group held one cross-currency interest rate swap designated as a hedge of expected future cash flows arising from €47,000,000 variable rate loan notes issued in September 2007. The cross-currency swap is used to hedge the EURIBOR interest rate exposure to a fixed rate of 7.97 per cent and Euro currency exposure from the loan notes fixed at a rate of €1.43:£1. The terms of the derivative have been negotiated to match the terms of the loan notes.

The cash flow hedge of the expected future loan note cash flows was assessed to be 100.0 per cent effective. The mark-to-market movement in the foreign currency leg of the swap of £1,725,000 gain (28th February 2013: £1,133,000 loss) has been recycled through profit or loss to offset the re-translation of the €47,000,000 loan. The mark-to-market movement on the interest leg of this swap of £1,798,000 gain (28th February 2013: £1,024,000 loss) is included within the net unrealised gain/(loss) reserve in equity. This cash flow hedge was cancelled in March 2014 following the renegotiation of the loan notes.

At 28th February 2014, the Group held interest rate swaps, caps and collars designated as economic hedges and not qualifying as effective hedges under IAS 39. The derivatives are used to mitigate the Group's interest rate exposure to variable rate loans of £59,230,000 (28th February 2013: £51,983,000). The fair value of the derivatives amounting to £451,000 is recorded as a financial liability at 28th February 2014 (28th February 2013: £1,404,000 liability) with the fair value loss taken to finance costs.

Fair value estimation

From 1st January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the Balance Sheet at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3). Discounted cash flows are used to determine fair values of these instruments.

The following table presents the Group's assets and liabilities that are measured at fair value:

	28th February 2014				28th February 2013			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets								
Available-for-sale financial assets	**–**	**–**	**19,527**	**19,527**	–	–	24,163	24,163
Total assets	**–**	**–**	**19,527**	**19,527**	–	–	24,163	24,163
Liabilities								
Derivative financial instruments:								
Cross-currency interest rate swap	**–**	**(1,744)**	**–**	**(1,744)**	–	(1,817)	–	(1,817)
Derivative financial instruments at fair value through profit or loss	**–**	**(451)**	**–**	**(451)**	–	(1,404)	–	(1,404)
Total liabilities	**–**	**(2,195)**	**–**	**(2,195)**	–	(3,221)	–	(3,221)

d) Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The nature and extent of the Group's financial risks, and the Directors' approach to managing those risks, are described in the Financial Review on pages 42 to 48 and below. This note provides further detailed information on these risks.

The Group defines capital as total equity and monitors this on the basis of gearing.

Interest rate maturity profile of financial liabilities

The following table sets out the carrying amount by maturity of the Group's financial instruments that are exposed to interest rate risk:

							28th February 2014
	Within one year £'000	One to two years £'000	Two to three years £'000	Three to four years £'000	Four to five years £'000	More than five years £'000	Total £'000
Fixed rate borrowings	–	20,000	–	–	–	74,699	94,699
Variable rate borrowings	15,318	5,320	10,500	–	–	–	31,138
Variable rate borrowings with interest rate caps or swaps	6,490	15,027	37,713	–	–	38,747	97,977
	21,808	40,347	48,213	–	–	113,446	223,814

							28th February 2013
	Within one year £'000	One to two years £'000	Two to three years £'000	Three to four years £'000	Four to five years £'000	More than five years £'000	Total £'000
Fixed rate borrowings	–	–	20,000	–	–	76,555	96,555
Variable rate borrowings	17	12,907	6,917	–	–	–	19,841
Variable rate borrowings with interest rate caps or swaps	–	6,832	7,238	37,913	–	40,472	92,455
	17	19,739	34,155	37,913	–	117,027	208,851

Interest on financial instruments classified as variable rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial assets and financial liabilities of the Group that are not included above are non-interest bearing and are therefore not subject to interest rate risk.

Foreign currency risk

The Group does not undertake significant trade overseas, however during the year the Group acquired two assets denominated in Euros. The Board reviews the exposure to foreign exchange risk and does not consider the value of these assets to be material to the Group.

As at 28th February 2014, the Group was exposed to foreign currency risk from €47,000,000 (28th February 2013: €47,000,000) loan notes issued during 2007 that were denominated in Euros. A cash collateral deposit of €6,939,000 (28th February 2013: €6,939,000) was held as security against the loan notes.

The Group entered into a currency and interest rate swap with a banking institution to minimise the potential risk. The swap was cash collateralised and qualified to be accounted for as a cash flow hedge as detailed below. The fair value of this instrument at 28th February 2014 was a liability of £1,744,000 (28th February 2013: £1,817,000 liability).

The Group maintained a security deposit of £4,000,000 (28th February 2013: £4,000,000) throughout the loan note term. The security deposit was required to cash collateralise the risk for the swap counterparty.

On 31st March 2014, the Group renegotiated the loan notes, cancelled the cross-currency interest rate swap and the cash collateral was released. On the same date £47,000,000 of new loan notes were issued and the Group has entered into a new cross-currency arrangement. No cash collateral is required under the terms of the new loan notes.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

18 Financial assets and financial liabilities continued

d) Financial risk management continued

During the year to 28th February 2014, the movement of Sterling against the Euro was approximately 5.7 per cent. Management, however, consider 8.0 per cent to be a prudent measure of sensitivity on this basis.

The following table demonstrates the possible effect of changes in Sterling and Euro exchange rates with all other variables held constant:

	Increase/ decrease in rate	Effect on cash collateral £'000
28th February 2014		
Sterling against Euro	**+8%**	**(421)**
	–8%	**494**
28th February 2013		
Sterling against Euro	+8%	(444)
	–8%	518

The Group does not undertake significant foreign exchange trading activity; consequently, a detailed foreign exchange sensitivity analysis is not presented.

Interest rate sensitivity

The following table demonstrates the sensitivity in respect of variable rate debt obligations to a change in interest rates, with other variables held constant, of the Group's profit before income tax.

The sensitivity analysis excludes all non-derivative fixed-rate financial instruments carried at amortised cost as well as variable rate financial instruments.

Fair value interest rate hedging instruments that are part of a hedging relationship have been excluded. Variable rate non-derivative financial instruments where the associated interest has been capitalised have also been excluded.

As at 28th February 2014, a movement of 50 basis points higher or lower, with all other variables held constant, would have the following effect on profit before tax. Management consider a movement of 50 basis points to be a reasonable guide to sensitivity in the current interest rate environment.

	Increase/ decrease in basis points	Effect on profit before tax £'000
28th February 2014		
Sterling borrowings	**+50**	**(144)**
	–50	**144**
28th February 2013		
Sterling borrowings	+50	(106)
	–50	106

Price risk

The Group is not exposed to commodity or security price risk.

Liquidity risk

A review of the Group's liquidity risk is set out in the Financial Review on page 43.

The table below summarises the maturity profile of the Group's financial liabilities at 28th February 2014 and 28th February 2013 on a contractual undiscounted payments basis:

						28th February 2014
Maturity profile of financial liabilities	**On demand £'000**	**Less than three months £'000**	**Three to twelve months £'000**	**One to five years £'000**	**More than five years £'000**	**Total £'000**
Interest-bearing loans and borrowings	**17**	**2,174**	**27,828**	**118,516**	**142,500**	**291,035**
Trade and other payables	**–**	**19,146**	**9,331**	**1,500**	**–**	**29,977**
Derivative financial instruments	**–**	**421**	**1,264**	**6,742**	**17,542**	**25,969**
	17	**21,741**	**38,423**	**126,758**	**160,042**	**346,981**

						28th February 2013
	On demand £'000	Less than three months £'000	Three to twelve months £'000	One to five years £'000	More than five years £'000	Total £'000
Maturity profile of financial liabilities						
Interest-bearing loans and borrowings	17	2,084	8,981	111,923	158,533	281,538
Trade and other payables	–	14,338	5,590	–	–	19,928
Derivative financial instruments	–	218	655	3,496	8,622	12,991
	17	16,640	15,226	115,419	167,155	314,457

Market risk

A summary of market risk and its effect on the Group is set out in Business Risks on page 13 and further discussed in the Chief Executive's Report on pages 6 and 7 and in the Operating Review on pages 30 to 41.

Fair values of financial assets and financial liabilities

Except as detailed below, in respect of fixed rate debenture and loan facilities, the Directors consider the carrying amount to be either fair value or a reasonable approximation of fair value apart from equity instruments classified as available-for-sale assets under IAS 39, where fair value cannot be reliably measured.

Fixed rate debt

A valuation was carried out as at 28th February 2014 by J C Rathbone Associates Limited, to calculate the market value of the Group's fixed rate debt on a replacement basis, taking into account the difference between fixed interest rates for the Group's borrowings and the market value and prevailing interest rate of appropriate debt instruments. Whilst the replacement basis provides a consistent method for valuation of fixed rate debt, such financing facilities are in place to provide continuing funding for the Group's activities. The valuation is therefore only an indication of a notional effect on the net asset value of the Group as at 28th February 2014, and may be subject to daily fluctuations in line with money market movements.

J C Rathbone Associates Limited have consented to the use of their name in the financial statements.

The fair value compared to the carrying amounts of the Group's fixed rate financial liabilities as at 28th February 2014 and 28th February 2013 is analysed below:

	Book value 28th February 2014 £'000	**Fair value 28th February 2014 £'000**
First mortgage debenture 11% due 2016	**20,000**	**22,833**
Fixed rate term loan due 2025	**53,586**	**60,339**
Fixed rate term loan due 2025	**21,113**	**22,576**
Total fixed rate financial liabilities	**94,699**	**105,748**

	Book value 28th February 2013 £'000	Fair value 28th February 2013 £'000
First mortgage debenture 11% due 2016	20,000	24,588
Fixed rate term loan due 2025	54,896	65,148
Fixed rate term loan due 2025	21,659	24,344
Total fixed rate financial liabilities	96,555	114,080

The fair value difference of £11,049,000 at 28th February 2014 (28th February 2013: £17,525,000) represents approximately 11.7 per cent of gross, fixed rate borrowings (28th February 2013: 18.2 per cent). The effect on net assets per share after tax of this adjustment would be a decrease of 6.9 pence after tax (28th February 2013: 10.9 pence decrease).

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

19 Deferred income tax

The following are the deferred income tax liabilities and assets and movements thereon recognised by the Group during the current and previous financial period. The UK corporation tax rate decreased on 1st April 2013 from 24.0 per cent to 23.0 per cent. Deferred income tax is calculated on the temporary differences under the liability method using a tax rate of 20.0 per cent (28th February 2013: 23.0 per cent).

	28th February 2014 £'000	28th February 2013 £'000
Charge/(credit) for the year in the Statement of Comprehensive Income (note 7)	**237**	(969)
Charged/(credited) directly to equity	**415**	(45)
	652	(1,014)

Deferred income tax liabilities recognised:	**28th February 2014 £'000**	28th February 2013 £'000
Revaluation of property		
At 1st March 2013/1st March 2012	**743**	3,241
Credited to the Statement of Comprehensive Income	**(743)**	(2,498)
	–	743

Deferred income tax assets recognised:	Decelerated capital allowances £'000	Provisions £'000	Tax losses £'000	Total £'000
At 1st March 2013	(702)	(380)	(2,159)	(3,241)
Charged/(credited) to the Statement of Comprehensive Income	437	(69)	1,161	1,529
Credited directly to equity	–	–	(45)	(45)
At 28th February 2013	(265)	(449)	(1,043)	(1,757)
Charged to the Statement of Comprehensive Income	41	59	880	980
Charged directly to equity	–	–	415	415
At 28th February 2014	**(224)**	**(390)**	**252**	**(362)**

Net deferred income tax assets	**£'000**
At 28th February 2014	**362**

Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. Deferred income tax assets arising from the Group's trading and capital losses are recognised on the basis that there will be sufficient profits in the foreseeable future to utilise such losses. The Group has not recognised deferred income tax assets of £5,047,000 (28th February 2013: £5,968,000) in respect of losses amounting to £25,223,000 (28th February 2013: £25,950,000) that can be carried forward against future taxable income.

Movements in deferred income tax assets and liabilities (prior to the offsetting of balances) are shown above.

20 Share capital

	28th February 2014 £'000	28th February 2013 £'000
Issued, called up and fully paid		
122,352,504 Ordinary shares of 50 pence (28th February 2013: 122,352,504 Ordinary shares of 50 pence)	**61,176**	61,176

	Number of shares
Shares in issue at the date of this report	122,352,504

The Company has one class of Ordinary shares which carry no right to fixed income.

The Company acquired 123,397 of its own shares through purchases on the London Stock Exchange in 2012. The total amount paid to acquire the shares, net of income tax, was £171,000 and has been deducted from shareholder equity. The shares are held as 'Treasury shares'. The Company has the right to re-issue these shares at a later date. All shares were fully paid.

Share option schemes

As at 28th February 2014, and at the date of this report, the options outstanding under the Company's share option schemes were exercisable as set out below (price stated in pence per share). The share options are more fully described in the Remuneration Report on pages 66 to 83.

Executive share option scheme 1995:

Date of grant	28.02.14 Number	30.04.14 Number	Exercise dates	Price
19th April 2004	**69,382**	**–**	19th April 2007 to 18th April 2014	**347.50**

Save as you earn option plan 2005:

Date of grant	28.02.14 Number	30.04.14 Number	Exercise dates	Price
24th October 2011	152,590	152,590	1st December 2014 to 31st May 2015	152.00

Share-based payments

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year:

	28th February 2014 Number	28th February 2014 Weighted average exercise price (pence)	28th February 2013 Number	28th February 2013 Weighted average exercise price (pence)
At 1st March 2013/1st March 2012	**557,203**	**270.9**	571,361	268.7
Options granted	**–**	**–**	–	–
Options lapsed	**(306,457)**	**323.9**	(3,501)	274.2
Options cancelled	**(28,774)**	**152.0**	(10,657)	152.0
	221,972	**213.1**	557,203	270.9

There were no options granted during the year. The average share price during the year was 204.8 pence (28th February 2013: 154.4 pence). Of the 221,972 (28th February 2013: 557,203) outstanding options at 28th February 2014, 69,382 were exercisable (28th February 2013: 255,839).

The options outstanding at 28th February 2014 were exercisable at 152.0 pence and 347.5 pence per share and have a weighted average remaining contractual life of 0.7 years (28th February 2013: 3.7 years).

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

20 Share capital continued

The fair value of grants is measured at the grant date using a Black-Scholes pricing model, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. The main assumptions of the Black-Scholes pricing model are as follows:

Grant date	24.10.11
Exercise price (pence)	152.0
Term (years)	3
Expected volatility	41%
Expected dividend yield p.a.	3.2%
Risk-free rate	0.9%
Expected forfeiture p.a.	Nil

Expected volatility was determined by calculating the historical volatility of the Development Securities PLC share price over multiple time periods. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

Conditional awards under the Performance Share Plan

The terms of the Performance Share Plan are set out in the Remuneration Report on pages 66 to 83.

Ordinary shares conditionally awarded under the Performance Share Plan are valued at their fair value on the date of the award, using an Equal Probability Model, which takes into account the probability of the Ordinary shares vesting based on an equal probability of achieving appropriate total shareholder return ranking as determined under the performance condition.

The principal assumptions for calculating the fair value of the Ordinary shares conditionally awarded are:

	28th February 2014	28th February 2013
Ordinary shares conditionally awarded (no. of shares)	**870,143**	1,235,161
Date of award	**29th May 2013**	29th May 2012
Share price (pence)	**192.0**	132.0
Percentage probability applied for fair value	**51.00%**	52.00%
Vesting period (months)	**32**	32

The expense recognised for equity-settled share-based payments in respect of employee services received during the year is £12,000 credit (28th February 2013: £21,000 charge).

The charge recognised for cash-settled share-based payments during the year is £nil (28th February 2013: £nil).

21 Reserves and movements in equity

	Share capital £'000	Share premium £'000	Property revaluation reserve £'000	Net unrealised gain/(loss) reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Treasury shares £'000
At 1st March 2012	61,176	103,961	–	(5,756)	1,631	44,188	–
Change in value of available-for-sale financial assets	–	–	–	829	–	–	–
Fair value of cross-currency interest rate swap	–	–	–	(1,024)	–	–	–
Deferred income tax credited directly to equity	–	–	–	45	–	–	–
Purchase of treasury shares	–	–	–	–	–	–	(171)
At 28th February 2013	61,176	103,961	–	(5,906)	1,631	44,188	(171)
Fair value of cross-currency interest rate swap	–	–	–	1,798	–	–	–
Deferred income tax charged directly to equity	–	–	–	(415)	–	–	–
Currency translation differences – Group	–	–	–	(104)	–	–	–
At 28th February 2014	**61,176**	**103,961**	**–**	**(4,627)**	**1,631**	**44,188**	**(171)**

The Capital redemption reserve arose from business combinations in prior financial periods. This reserve is not distributable.

Retained earnings

	£'000
At 1st March 2012	106,134
Profit for the year	2,421
Share based payments	21
Final dividend 2012	(3,911)
Interim dividend 2013	(2,934)
At 28th February 2013	101,731
Profit for the year	18,236
Share based payments	(12)
Final dividend 2013	(2,934)
Interim dividend 2014	(2,934)
At 28th February 2014	**114,087**

22 Note to the cash flow statement

Reconciliation of profit before income tax to net cash outflow from operating activities:

	28th February 2014 £'000	28th February 2013 £'000
Profit before income tax	**19,527**	792
Adjustments for:		
Gain on disposal of investment properties	**(539)**	(864)
Net (gain)/loss on revaluation of property portfolio	**(3,109)**	16,423
Other income	**(471)**	(615)
Share of post-tax profits of joint ventures and associates	**(12,834)**	(7,682)
Income from financial asset	**–**	(500)
Loss/(profit) from sale of investment	**250**	(20)
(Profit)/loss on sale of other fixed assets	**(34)**	13
Finance income	**(2,552)**	(2,125)
Finance cost	**13,532**	12,245
Depreciation of property, plant and equipment	**768**	737
Amortisation of goodwill	**–**	1,030
Operating cash flows before movements in working capital	**14,538**	19,434
(Increase)/decrease in development and trading properties	**(38,930)**	7,566
(Increase)/decrease in receivables	**(16,018)**	10,141
Increase/(decrease) in payables	**7,911**	(703)
(Decrease)/increase in provisions	**(28)**	380
Cash flows (used in)/generated from operating activities	**(32,527)**	36,818

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

23 Financial commitments and operating lease arrangements

Capital commitments

At 28th February 2014, the Group had contracted capital expenditure of £nil (28th February 2013: £490,000). In addition, the Group has commitments for loans to its associates amounting to £2,100,000 (28th February 2013: £1,032,000).

Operating lease arrangements:

Operating lease arrangements in respect of land and buildings where the Group is lessee:

	28th February 2014 £'000	28th February 2013 £'000
Minimum lease payments under operating leases recognised for the year	**3,679**	3,689

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	28th February 2014 £'000	28th February 2013 £'000
Within one year	**3,679**	3,679
In the second to fifth years inclusive	**9,548**	11,399
After five years	**8,955**	10,783
	22,182	25,861

Operating lease payments represent rentals payable by the Group for certain of its leasehold properties. Leases were negotiated for an average term of 15.3 years (28th February 2013: 15.2 years).

In respect of operating lease arrangements where the Group is lessor, at the balance sheet date, the Group had contracted with tenants for the following future minimum payments:

	28th February 2014 £'000	28th February 2013 £'000
Within one year	**17,125**	16,344
In the second to fifth years inclusive	**56,281**	48,866
After five years	**118,659**	74,785
	192,065	139,995

Property investment income earned during the year was £15,054,000 (28th February 2013: £16,080,000).

24 Contingent liabilities

In the normal course of its development activity the Group is required to guarantee performance bonds provided by banks in respect of certain obligations of Group companies. At 28th February 2014, such guarantees amounted to £4,708,000 (28th February 2013: £4,708,000).

The Group has provided guarantees for rent liabilities in respect of properties previously occupied by Group companies. In the event that the current tenants ceased to pay rent, the Group would be liable to cover any shortfall until the building could be re-let. The Group has made provision against crystallised liabilities in this regard. In respect of potential liabilities where no provision has been made, the annual rent-roll of the buildings benefiting from such guarantees is £279,000 (28th February 2013: £279,000) with an average unexpired lease period of 4.1 years (28th February 2013: 5.1 years).

The Group has guaranteed its 50.0 per cent share of the capital and interest payable by Curzon Park Limited, a joint venture, in respect of the company's borrowings of £8,710,000 (refer note 18(a)).

The Group has guaranteed its share of interest up to a maximum of £575,000 in respect of the £26,000,000 loan in Notting Hill (Guernsey Holdco) Limited.

25 Pension scheme

The Company operates a defined contribution scheme for Directors and employees. Monthly premia are invested in an independent insured fund.

The amounts charged to the Statement of Comprehensive Income during the year are set out in note 5.

26 Related parties

During the year, the Group entered into transactions, in the ordinary course of business, with related parties.

During the year, the Group acquired a property from Northpoint Developments Limited for £4,378,000. The acquisition was transacted on an arm's-length basis at open market value.

Transactions entered into and balances outstanding at 28th February 2014 and 28th February 2013 with related parties are set out below. Only Directors are considered to be key management personnel. There were no transactions with Directors other than remuneration set out in the Remuneration Report on pages 66 to 83.

	Finance income from related parties £'000	Amounts owed by related parties (before provision) £'000
Joint ventures		
28th February 2014	**2,358**	**32,695**
28th February 2013	2,312	27,082
Associates		
28th February 2014	**821**	**20,566**
28th February 2013	1,219	16,294

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2014

27 Projects in partnership

The following is a summary of the Group's projects in partnership and the Balance Sheet classification of its financial interests:

Project/partner	Project activity	Accounting classification	28th February 2014 £'000	28th February 2013 £'000
Atlantic Park (Bideford) Limited	Strategic land investment	Investment in associates	**276**	276
Barwood Development Securities Limited	Strategic land investment	Investment in associates	**2,500**	2,500
Barwood Land and Estates Limited	Strategic land investment	Investment in associates	**1,500**	1,500
Wessex Property Fund	Property investment	Investment in associates	**–**	–
Beyond Green Developments Limited	Property development	Development properties	**6,437**	6,005
Wessex Investors	Property development	Development properties	**3,818**	3,480
Grantham Associates Limited	Hotel operator	Trading property	**4,267**	4,267
Cathedral (Greenwich Beach) Limited	Property development	Financial assets	**4,433**	3,146
Cathedral (Movement, Greenwich) LLP	Property development	Financial assets	**829**	829
Northpoint Developments Limited	Property development	Financial assets	**16,990**	15,946
Curzon Park Limited	Property development	Investment in joint ventures	**–**	–
Curzon Park Limited	Property development	Financial assets	**6,150**	5,000
Orion Shepherds Bush Limited	Property development	Financial assets	**–**	3,067
Property Alliance Group	Property development	Financial assets	**1,500**	1,500
Accrue Student Housing GP Limited	Student accommodation	Investment in joint ventures	**1,601**	1,474
Development Equity Partners Limited	Property development	Investment in joint ventures	**276**	280
DS Renewables LLP	Property development	Investment in joint ventures	**–**	–
The Esplanade Partnership Limited	Property trading	Investment in joint ventures	**522**	8,006
Harwell Oxford Developments Limited	Property development	Investment in joint ventures	**6,140**	–
Kensington & Edinburgh Estates (South Woodham Ferrers) Limited	Property development	Investment in joint ventures	**163**	–
Manchester Arena Complex LP	Investment property	Investment in joint ventures	**61**	9,832
Notting Hill (Guernsey Holdco) Limited	Property development	Investment in joint ventures	**6,569**	6,653
Orion Land & Leisure Limited	Property development	Investment in joint ventures	**3,686**	–
Purplexed LLP	Property development	Investment in joint ventures	**9,332**	7,552
Winnebago Holdings Sarl	Investment property	Investment in joint ventures	**3,430**	6,340
			80,480	87,653

The aggregate amounts included within each relevant Balance Sheet account are as follows:

	28th February 2014 £'000	28th February 2013 £'000
Investment in associates	**4,276**	4,276
Investment in joint ventures	**31,780**	40,137
Financial assets – current	**1,700**	1,700
Financial assets – non-current	**28,202**	27,788
Development properties	**10,255**	9,485
Trading properties	**4,267**	4,267
	80,480	87,653

28 Post balance sheet events

At 28th February 2014, the Group had exchanged contracts for sale and purchase for a number of assets. All transactions have since successfully completed.

All property investment assets held for sale as at 28th February 2014 have now completed.

In March 2014, the Group acquired a 15 per cent holding in a joint venture investing in a property in London.

In March 2014, €47.0 million of loan notes were cancelled and reissued under new terms.

In April 2014, the Group exchanged contracts to acquire a shopping centre in Northern Ireland for £7.4 million.

Independent Auditors' Report to the Members of Development Securities PLC

Report on the Parent company financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Parent company's affairs as at 28th February 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Parent company financial statements (the 'financial statements'), which are prepared by Development Securities PLC, comprise:

- the Company Balance Sheet as at 28th February 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 65, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have reported separately on the Group financial statements of Development Securities PLC for the year ended 28th February 2014.

Julian Jenkins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30th April 2014

Company Balance Sheet

As at 28th February 2014

	Notes	£'000	28th February 2014 £'000	£'000	28th February 2013 £'000
Fixed assets					
Tangible assets	32	**410**		625	
Debtors – loans and receivables	36	**8,115**		10,188	
Investments	33	**93,610**		93,510	
			102,135		104,323
Current assets					
Trading property	34	**307**		–	
Debtors – loans and receivables	36	**1,700**		1,700	
Debtors	35	**416,938**		511,139	
Cash in hand and at bank		**22,278**		26,329	
		441,223		539,168	
Creditors					
Amounts falling due within one year	37(a)	**(149,686)**		(261,658)	
Net current assets			**291,537**		277,510
Total assets less current liabilities			**393,672**		381,833
Creditors					
Amounts falling due after more than one year:					
Bank loans	37(b)	**(71,887)**		(73,837)	
Provisions for liabilities	37(c)	**(1,317)**		(1,575)	
			(73,204)		(75,412)
Net assets			**320,468**		306,421
Capital and reserves					
Called up share capital	38		**61,176**		61,176
Share premium	39		**103,961**		103,961
Other reserves	39		**1,460**		1,460
Profit and loss account	39		**153,871**		139,824
Total shareholders' funds			**320,468**		306,421

The notes on pages 133 to 140 are an integral part of these financial statements.

Approved by the Board of Directors on 30th April 2014 and signed on its behalf by

M H Marx
Director

Notes to the Company Financial Statements

For the year ended 28th February 2014

29 Accounting policies

a) Basis of accounting

The Company's financial statements have been prepared in accordance with applicable laws, United Kingdom accounting standards, on a going concern basis and under the historical cost convention. The accounting policies adopted are consistent with the previous year and are set out below.

The Company has not presented its own Profit and Loss account, as permitted by s408 of the Companies Act 2006. The profit after tax for the year was £19,927,000 (28th February 2013: £10,756,000 loss).

The Company has taken advantage of the exemption from preparing a Cash flow statement under the terms of FRS 1.

The Company has also taken advantage of the exemption in paragraph 2D of FRS 29, 'Financial Instruments: Disclosures' and has not disclosed information required by that standard, as the Group's Consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7, 'Financial Instruments: Disclosures'.

The financial statements were approved by the Directors for issue on 30th April 2014.

b) Investments

The Company's investments in subsidiaries, associates and joint ventures are accounted for in the financial statements at cost less any provision for impairment.

Loans and receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

c) Operating leases

Rental payments under operating leases are charged on a straight-line basis to the profit and loss account over the lease term even if the payments are not made on such a basis.

d) Tangible assets

Tangible assets are held at cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided so as to write off the cost less estimated residual value of such assets over their expected useful lives on a straight-line basis. The principal annual rates used for this purpose are as follows:

Fixtures and fittings and computer equipment	– 10% to 33%
Motor vehicles	– 20%

e) Trading property

Trading property is carried as inventory and stated at the lower of cost and estimated net realisable value. Cost also includes directly attributable expenditure. No element of overhead is included in cost, since it is not practical to identify overhead amounts in respect of particular assets. Where Directors consider that the costs are not recoverable from the proposed scheme, the project or site is written down to its net realisable value, with the write-down taken to the profit and loss account. Net realisable value is calculated as the estimated realisable value of the project or site, based upon our current plans, less all further costs to be incurred in making the sale.

f) Provisions for liabilities

A provision is recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation. The accretion in the discount is recognised as an interest expense.

g) Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable at the balance sheet date, together with any adjustment in respect of previous periods.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unutilised tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Income tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account. Deferred tax is measured on a non-discounted basis.

Notes to the Company Financial Statements continued

For the year ended 28th February 2014

29 Accounting policies continued

h) Pension schemes

The Company operates a defined contribution scheme on behalf of the Development Securities PLC Group. The charge to the profit and loss in the year represents the actual amount payable to the scheme in the year. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the Balance Sheet.

i) Foreign currencies

Transactions denominated in foreign currencies are translated into UK Sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Exchange movements are dealt with in the Profit and Loss account.

j) Share-based payments

The Company operates a number of share-based compensation plans, the majority of which are cash-settled, under which the entity receives services from employees as consideration for cash-settled instruments of the Company. The fair value of the employee services received in exchange for the grant of the option is recognised as an expense.

The Company has used a Black-Scholes option valuation model to determine the fair value of share options granted. An equal probability model has been used to determine the fair value of share awards under the Performance Share Plan. The cost of cash-settled transactions with employees and Directors is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. In valuing cash-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of cash-settled share-based instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Profit and Loss account, with a corresponding entry in accruals.

30 Auditors' remuneration

Auditors' remuneration in respect of the audit for the Company was £15,000 (28th February 2014: £15,000).

31 Operating lease arrangements

	28th February 2014 £'000	28th February 2013 £'000
The Company as lessee:		
Minimum lease payments under operating leases recognised for the year	**1,168**	1,168

Annual commitments under non-cancellable operating leases are as follows:

	28th February 2014 £'000	28th February 2013 £'000
Operating leases which expire:		
Within one year	**–**	–
In the second to fifth years inclusive	**1,168**	1,168
After five years	**763**	763
	1,931	1,931

Operating lease payments represent rentals payable by the Company for its office property. The lease payments were negotiated for an average term of 11.5 years (28th February 2013: 11.5 years).

32 Tangible assets

	Fixtures and fittings and computer equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1st March 2013	1,152	253	1,405
Additions	17	–	17
Disposals	(5)	(143)	(148)
At 28th February 2014	**1,164**	**110**	**1,274**
Accumulated depreciation			
At 1st March 2013	590	190	780
Charge for the year	203	24	227
Disposals	(3)	(140)	(143)
At 28th February 2014	**790**	**74**	**864**
Net book amount 28th February 2014	**374**	**36**	**410**
Net book amount 28th February 2013	562	63	625

Notes to the Company Financial Statements continued

For the year ended 28th February 2014

33 Investments

	Shares in subsidiary undertakings £'000	Interest in associated undertakings £'000	Interest in loan notes £'000	Total £'000
Cost:				
At 1st March 2013	133,415	997	8,625	143,037
Additions	50	–	50	100
At 28th February 2014	133,465	997	8,675	143,137
Amounts provided:				
At 1st March 2013 and 28th February 2014	(48,530)	(997)	–	(49,527)
Net book amount 28th February 2014	**84,935**	**–**	**8,675**	**93,610**
Net book amount 28th February 2013	84,885	–	8,625	93,510

The Company holds £8,675,000 (28th February 2013: £8,625,000) of loan notes in Northpoint Developments Limited (formerly CTP Securities Limited), a company incorporated and registered in the United Kingdom. £8,425,000 (28th February 2013: £8,425,000) of the loan notes earn interest at a fixed rate of 4.25 per cent per annum. A further £200,000 interest free loan notes were acquired in 2012 and £50,000 in February 2014.

The principal subsidiaries of the Company are set out in note 14(c) of the Group financial statements.

34 Trading property

	Freehold £'000
Net Realisable Value:	
At 1st March 2013	–
Additions	307
At 28th February 2014	**307**

35 Debtors

	28th February 2014 £'000	28th February 2013 £'000
Trade debtors	**15**	24
Amounts owed by subsidiary undertakings	**408,055**	505,791
Amounts owed by associated undertakings	**535**	347
Other debtors	**6,970**	4,249
Other taxation recoverable	**1,088**	436
Prepayments	**275**	292
	416,938	511,139

Amounts owed by subsidiary undertakings are unsecured, interest free and repayable on demand.

36 Debtors – loans receivable

	28th February 2014 £'000	28th February 2013 £'000
Fixed assets		
Loans to joint operations	**8,115**	10,188

	28th February 2014 £'000	28th February 2013 £'000
Current assets		
Loans and receivables (refer note 18(a))	**1,700**	1,700

Development loans to joint operations include a number of working capital and project specific loans of £8,115,000 (28th February 2013: £7,121,000) to Northpoint Developments Limited (formerly CTP Securities Limited). The loans attract fixed coupon rates of between 5.0 and 13.0 per cent. In addition an interest free loan of £208,000 is included in the above amount.

The Company also provided a short-term, non-interest bearing loan of £200,000 to Northpoint Developments Limited and £1,500,000 to Property Alliance Group, repayable on demand, as a contribution to a prospective future project.

37 Creditors

a) Amounts falling due within one year	28th February 2014 £'000	28th February 2013 £'000
Bank loans and overdrafts – unsecured	**17**	17
Bank loans – secured	**1,886**	1,778
Trade creditors	**179**	500
Amounts owed to subsidiary undertakings	**135,730**	250,088
Amounts owed to associated undertakings	**1,932**	1,932
Other creditors	**1,654**	1,907
Taxation and social security	**–**	184
Accruals	**8,288**	5,252
	149,686	261,658

Amounts owed to subsidiary undertakings are unsecured, interest free and repayable on demand.

b) Amounts falling due after more than one year	28th February 2014 £'000	28th February 2013 £'000
Bank loans	**71,887**	73,837

c) Amounts falling due after more than one year	28th February 2014 £'000	28th February 2013 £'000
Provisions for liabilities	**1,317**	1,575

A provision of £948,000 (28th February 2013: £1,003,000) relates to an onerous lease obligation entered into in 2009. Development Securities PLC has been called upon as guarantor to take over three leases in respect of Stead and Simpson Limited. £369,000 (28th February 2013: £572,000) has been provided to cover obligations in respect of those leases.

Notes to the Company Financial Statements continued

For the year ended 28th February 2014

38 Called up share capital

Issued, called up and fully paid	28th February 2014 £'000	28th February 2013 £'000
122,352,504 Ordinary shares of 50 pence (28th February 2013: 122,352,504 Ordinary shares of 50 pence)	**61,176**	61,176

	Number of shares
Shares in issue at the date of this report	122,352,504

The Company has one class of Ordinary shares which carry no right to fixed income.

The Company acquired 123,397 of its own shares through purchases on the London Stock Exchange in 2012. The total amount paid to acquire the shares, net of income tax, was £171,000 and has been deducted from shareholder equity. The shares are held as 'Treasury shares'. The Company has the right to re-issue these shares at a later date. All shares were fully paid.

Share option schemes

As at 28th February 2014 and at the date of this report, the options outstanding under the Company's share option schemes were exercisable as set out below (price stated in pence per share). The share options are more fully described in the Remuneration Report on pages 66 to 83.

Executive share option scheme 1995:

Date of grant	28.02.14 Number	30.04.14 Number	Exercise dates	Price
19th April 2004	69,382	–	19th April 2007 to 18th April 2014	347.50

Save as you earn option plan 2005:

Date of grant	28.02.14 Number	30.04.14 Number	Exercise dates	Price
24th October 2011	152,590	152,590	1st December 2014 to 31st May 2015	152.00

Share-based payments

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year:

	28th February 2014 Number	28th February 2014 Weighted average exercise price (pence)	28th February 2013 Number	28th February 2013 Weighted average exercise price (pence)
At 1st March 2013/1st March 2012	**557,203**	**270.9**	571,361	268.7
Options granted	**–**	**–**	–	–
Options lapsed	**(306,457)**	**323.9**	(3,501)	274.2
Options cancelled	**(28,774)**	**152.0**	(10,657)	152.0
	221,972	**213.1**	557,203	270.9

There were no options granted during the year. The average share price during the year was 204.8 pence (28th February 2013: 154.4 pence). Of the 221,972 (28th February 2013: 557,203) outstanding options at 28th February 2014, 69,382 were exercisable (28th February 2013: 255,839).

The options outstanding at 28th February 2014 were exercisable at 152.0 pence and 347.5 pence per share and have a weighted average remaining contractual life of 0.7 years (28th February 2013: 3.7 years).

The fair value of grants is measured at the grant date using a Black-Scholes pricing model, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. The main assumptions of the Black-Scholes pricing model are as follows:

Grant date	24.10.11
Exercise price (pence)	152.0
Term (years)	3
Expected volatility	41%
Expected dividend yield p.a.	3.2%
Risk-free rate	0.9%
Expected forfeiture p.a.	Nil

Expected volatility was determined by calculating the historical volatility of the Development Securities PLC share price over multiple time periods. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

Conditional awards under the Performance Share Plan

The terms of the Performance Share Plan are set out in the Remuneration Report on pages 66 to 83.

Ordinary shares conditionally awarded under the Performance Share Plan are valued at their fair value on the date of the award, using an Equal Probability Model, which takes into account the probability of the Ordinary shares vesting based on an equal probability of achieving appropriate total shareholder return ranking as determined under the performance condition.

The principal assumptions for calculating the fair value of the Ordinary shares conditionally awarded are:

	28th February 2014	28th February 2013
Ordinary shares conditionally awarded (no. of shares)	**870,143**	1,235,161
Date of award	**29th May 2013**	29th May 2012
Share price (pence)	**192.0**	132.0
Percentage probability applied for fair value	**51.00%**	52.00%
Vesting period (months)	**32**	32

The expense recognised for equity-settled share-based payments in respect of employee services received during the year is £12,000 credit (28th February 2013: £21,000 charge).

The charge recognised for cash-settled share-based payments during the year is £nil (28th February 2013: £nil).

Notes to the Company Financial Statements continued

For the year ended 28th February 2014

39 Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000
At 1st March 2013 and 28th February 2014	**61,176**	**103,961**	**1,631**	**(171)**

Profit and loss account	£'000
At 1st March 2012	157,404
Loss for the financial year	(10,756)
Share-based payments	21
Final dividend 2012	(3,911)
Interim dividend 2013	(2,934)
At 28th February 2013	139,824
Profit for the financial year	19,927
Share-based payments	(12)
Final dividend 2013	(2,934)
Interim dividend 2014	(2,934)
At 28th February 2014	**153,871**

The profit after tax of the Company was £19,927,000 (28th February 2013: £10,756,000 loss).

40 Contingent liabilities

The contingent liabilities of the Group are set out in note 24. The Company has provided guarantees in respect of loans and overdrafts of its subsidiary entities totalling £149,098,000 (28th February 2013: £132,279,000). In addition, the Company has guaranteed the performance of subsidiary entities under a range of operating obligations, none of which is expected to give rise to a liability in the Company.

41 Related parties

Related party transactions are the same for the Company as for the Group. Details can be found in note 26 of the Group financial statements.

The Company has taken advantage of the exemption within FRS 8, not to disclose transactions with wholly owned subsidiaries.

Financial Calendar and Advisors

Financial Calendar

Annual General Meeting	16th July 2014
Payment of Ordinary dividend	22nd August 2014
Announcement of Interim Results to 31st August 2014	October 2014

Company Secretary
H M Ratsey ACIS

Registered office
Portland House
Bressenden Place
London SW1E 5DS
Telephone: 020 7828 4777
Facsimile: 020 7828 4999

Website address
www.developmentsecurities.com

Registered number
1528784

Incorporation
Development Securities PLC is incorporated in Great Britain and registered in England and Wales

Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Principal bankers
Aviva Commercial Finance Limited
Barclays Bank PLC
Lloyds Banking Group
Santander Group
The Royal Bank of Scotland plc

Corporate solicitors
Linklaters LLP

Financial advisors
Rothschild

Corporate stockbrokers
Peel Hunt LLP
Barclays Bank PLC

Registrars and transfer office
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone: 0871 664 0300
UK calls cost 10p per minute plus network extras
Lines are open 9.00am – 5.30pm Monday to Friday excluding public holidays
Overseas telephone: +44 20 8639 3399
Email: shareholderenquiries@capita.co.uk

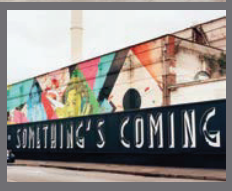
Development Securities PLC
Portland House
Bressenden Place
London SW1E 5DS
www.developmentsecurities.com










FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C016486

Design
saslondon.com

Photography by
Kate Peters

Supporting photography by
John Wildgoose

Printed by
CPI Colour, a carbon neutral company
The printer and paper are FSC certified